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# Lessons Learned from the First Generation of Money Laundering and Terrorist Financing Risk Assessments

Financial Stability and Integrity



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1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)

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# Acronyms

AML	anti-money laundering
APG	Asia/Pacific Group on Money Laundering
BO	beneficial ownership
CFATF	Caribbean Financial Action Task Force
CFT	countering the financing of terrorism
CPF	countering the financing of the proliferation [of weapons of mass destruction]
DNFBPs	designated nonfinancial businesses and professions
EAG	Eurasian Group
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FIs	financial institutions
FIU	financial intelligence unit
FSRBs	FATF-style regional bodies
GABAC	Action Group against Money Laundering in Central Africa
GAFILAT	Financial Action Task Force of Latin America
GDP	gross domestic product
GIABA	Inter-Governmental Action Group against Money Laundering in West Africa
IARM	Identifying and Assessing the Risk of Money Laundering in Europe
IMF	International Monetary Fund
IO	Immediate Outcome [as in IO1]
LEAs	law enforcement agencies
LP	legal person
MENAFATF	Middle East and North Africa Financial Action Task Force
MER	mutual evaluation report
ML	money laundering
MONEYVAL	Committee of Experts on the Evaluation of AML/CFT
NPOs	nonprofit organizations
NRA	National Money Laundering and Terrorist Financing Risk Assessment
NRA Tool	National Money Laundering and Terrorist Financing Risk Assessment Tool
PF	proliferation financing
RBA	risk-based approach
R	Recommendation [e.g., R1]
SAR	special administrative region
SRA	sectoral or strategic risk assessments
TF	terrorist financing
UNSCRs	United Nations Security Council Resolutions
VA	virtual asset
VASP	virtual asset service provider

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Although the findings in this report are an accumulation of inputs from a wide range of World Bank experts over several years, the report reflects the views of the author only. Any findings, interpretations, and recommendations in the report do not necessarily represent the views of the World Bank's management, its Board of Directors, or the experts and reviewers who directly or indirectly contributed to this report.

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# Executive Summary

Understanding and assessing risks related to the proceeds of crime, money laundering (ML), and terrorist financing (TF) and developing risk-based and effective measures to mitigate those risks are important for creating a stable and safe environment that enables economic development and shared prosperity. Development efforts can be effective only on a stable foundation that is safe from erosion by corruption, organized crime, and other security risks. This foundation is also essential to prevent the siphoning of valuable national resources in the form of illicit financial flows.

Considering the importance of financial integrity as an enabler of development and shared prosperity, the World Bank, over the past decade, has developed a National ML/TF Risk Assessment (NRA) Toolkit and has supported 114 client jurisdictions in their ML/TF risk assessments using this toolkit. Those technical assistance activities have taught many lessons, most of which were integrated into the World Bank's existing guidance and technical assistance material.

This report brings together some lessons learned from the World Bank's field experiences in supporting NRAs in a wide range of jurisdictions, with a perspective to guide World Bank client jurisdictions in undertaking more robust and in-depth risk assessments in the future. A more extensive understanding of risks is expected to lead to risk-based and more effective prevention and suppression measures against the proceeds of crime, money laundering, terrorist financing, and, subsequently, criminal and terrorist organizations reliant on these.

## Background

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The Financial Action Task Force (FATF) is the international organization that leads the global fight against money laundering, terrorist financing, and proliferation financing. The FATF sets international policy standards on anti-money laundering (AML) and countering the financing of terrorism (CFT)—namely, its 40 Recommendations. The organization also promotes and monitors global compliance with these standards. The World Bank is an observer member and close partner of the FATF.

Since 2012, FATF Recommendations have adopted a risk-based approach to AML/CFT and require all jurisdictions to assess and understand their ML and TF risks as a foundation of this risk-based approach. In practice, a countrywide assessment of the ML/TF risks is referred to as a National ML/TF Risk Assessment. NRAs are elaborate self-assessments involving various stakeholders from state authorities and the private sector and demonstrate a country's understanding of risks associated with money laundering and terrorist financing at the national level and in various sectors of the economy.

The risk-based approach is also important from the financial inclusion perspective as an enabler of simplifications in low-risk financial transactions. If applied properly, a risk-based approach to AML/CFT is a well-balanced regime that supports the access of low-risk vulnerable populations to finance while preventing the abuse of the financial sector by criminals.

## Despite significant progress over the past decade, most developing economies are still in the infancy of their risk-based approaches to AML/CFT

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For a stocktaking of progress in the implementation of the risk-based approach since its introduction in 2012, this study analyzed 146 Mutual Evaluation reports.<sup>1</sup> The analysis shows that approximately 80 percent of developing economies have serious deficiencies in understanding their ML/TF risks and implementing risk-based approaches to AML/CFT.

In their mutual evaluation reports, more than 90 percent of all jurisdictions received some sort of criticism about the

**depth and comprehensiveness of their understanding of ML/TF risks.** In 44 percent of jurisdictions, issues related to the understanding of ML risks were serious and had explicit impacts on the ratings the jurisdiction received. The same figure for the understanding of TF risks is 36 percent.

Most jurisdictions face challenges in the **implementation of the risk-based approach.** For example, almost 90 percent of jurisdictions were criticized, and ratings of 47 percent of them were explicitly affected owing to **issues related to risk-based national policies and strategies.** Approximately 90 percent of the jurisdictions, regardless of their development levels, face problems related to the implementation of a risk-based approach, particularly by designated nonfinancial businesses and professions (DNFBPs, such as company and trust service providers, lawyers, real estate agents, and so on) and nonbank financial institutions. The global state of implementation of the risk-based approach to legal persons—the Achilles' heel of the global financial system for financial crimes—is also concerning; 94 percent of all jurisdictions have problems. In 56 percent, these problems were more serious and had explicit impacts on jurisdictions' ratings. Again, most of the jurisdictions that face serious issues are developing economies.

Findings in this report also confirm a paradoxical situation found by an earlier World Bank report on “*The Impact of the FATF Recommendations and Their Implementation on Financial Inclusion*” (World Bank 2021): low-capacity jurisdictions that need simplifications and exemptions in their risk-based approach most to tackle their financial inclusion problems use these flexibilities much less often than developed jurisdictions do.

Considering this report's findings and based on the World Bank Financial Market Integrity unit's experiences during NRA technical assistance activities, the study presents the following recommendations for the World Bank client jurisdictions.

## Policy recommendations

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### Overarching recommendations

- **Do it for your own good.** Avoid seeing the process as a “checking the box” type of exercise to satisfy an external audience, particularly the FATF and the FATF-style regional bodies; rather, take advantage of this resource-intensive effort to develop a real diagnosis and prognosis.

<sup>1</sup> Mutual evaluations are external compliance evaluations of jurisdictions against the 40 Recommendations carried out by the FATF and its partner organizations. A mutual evaluation examines and rates the effectiveness of a risk-based approach in a jurisdiction among a broader set of AML/CFT measures. Mutual evaluations should not be confused with NRAs. Please refer to appendix C for a comparison of the two concepts.

- **Identify the objective and the target audience clearly.** Clearly identify the objective and the target audience and guide the NRA technical experts accordingly.
- **Find the right person to lead the NRA and invest in leadership.** Invest in good leadership to ensure success. Making an extra effort and a greater investment in leadership and coordination will save more costly resources along the way. Ensure high-level buy-in for the NRA process.
- **Empower the assessors.** Authorize, support, and protect the assessors. Treat them as doctors who are making a diagnosis. The right diagnosis will lead to the right treatment.

### Recommendations for more robust assessments and understanding of ML/TF risks

- **Do not miss the big picture.** Adopt a holistic perspective and be aware of biases and groupthink. Do not be distracted by the details of an assessment methodology. Balance the use of available quantitative and qualitative information and employ review mechanisms to prevent myopia during the risk assessment.
- **Invest in data collection and academic research.** Rather than relying on ad hoc efforts to collect data on ML/TF risks, invest in data and information collection for the long term, develop and use tools to this end, and educate the stakeholders about the value of the data. Engage academia and invest in academic research on ML/TF risks.
- **Make the best use of feedback during and after the NRA.** During the risk assessments, benefit from reviews and feedback from external experts and academics. Test the quality of your risk assessment before it is tested in a mutual evaluation. Get candid feedback from the audience and consumers of the ML/TF risk assessments, including the private sector.

### Recommendations for turning the NRA results into real risk-based approaches

- **Find innovative and country-specific solutions to turn NRA results into risk-based policies, strategies, and actions.** An NRA is an expensive diagnosis exercise—don't waste it. Be ready to challenge and change the current AML/CFT regulatory and institutional framework if it is not risk based and effective. The risk-based approach comes with flexibility; take advantage of it. Rather than looking for best practices, be the best practice yourself.

- **Establish a culture of risk-based approach.** Consider establishing a culture and permanent mechanisms and units for assessing, understanding, and monitoring risks. This will help build relevant expertise and human capacity as well as institutional memory to cope with evolving risks.
- **Be flexible and efficient in reporting and dissemination.** Although it can have benefits, the publication of a risk assessment report is not the only and most effective way of disseminating and communicating risk assessment results. Benefit from other dissemination tools such as sector-specific forums, training materials, focused briefs, and updates in red-flag indicators.

## A way forward for the World Bank's NRA Program

A survey done under the scope of this study questioned the root causes of problems in NRAs. The biggest challenge appears to be the allocation of adequate resources, including human resources, for the assessment of the risks. Lack of knowledge and experience was also noted as a key challenge, confirming the need for continuing support for country NRAs. Additionally, interagency and public-private coordination problems were among the main issues for many survey participants. The responses to another survey done by the project team show that challenges related to the gathering of relevant and up-to-date data and information also limit the quality and depth of the risk assessments.

A proper understanding of criminal proceeds and financial flows is a must for assessing money laundering risks. However, despite the rapid progress in information technologies and data science, many jurisdictions still have only limited data and information as to the scale of the detected portion of criminal proceeds and financial flows—the tip of the iceberg—let alone the undetected bulk of the proceeds.

The World Bank's NRA technical assistance program has reached 114 jurisdictions and more than 5,000 experts in these jurisdictions since 2013. Field experiences of World Bank project leaders and the feedback from jurisdictions that had received technical assistance show that this program has played an important role in the FATF's ongoing transition to a risk-based approach to AML/CFT, especially in developing jurisdictions.

Regarding capacity building, many developing jurisdictions still require at least partial assistance in future risk assessments, and only one-fifth of the participants feel confident conducting future assessments without external support. This suggests that the demand for technical assistance on NRAs by the World Bank and other providers may continue in the coming years. However, going forward, World Bank management may consider shifting the focus of NRA-related technical assistance projects to more-specific areas highlighted in this analysis rather than supporting national risk assessments in their second rounds. The new focus can be on selective but more in-depth global and country engagements, such as

- Supporting the development and implantation of risk-based national AML/CFT policies, strategies, actions, and implementation of these;
- Better data collection and analysis on the proceeds of crimes, and academic research that can support understanding of the proceeds of crimes and their movement at the global level and in client jurisdictions;
- Implementation of risk-based approaches to new technologies—including virtual assets—legal persons, company and trust service providers, and other DNFBPs; and
- Implementation of the risk-based approach in support of financial inclusion, including remittances, digital financial products, and merchant payments.

## Recommendations to international organizations, technical assistance providers, and donors

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International organizations, technical assistance providers, and donors may wish to consider

- Further supporting the academic work on the proceeds of crimes and criminal financial flows and investing in independent research and data collection at the international and national levels, and
- Improving the guidance and facilitating the sharing of best practices in the areas in which the jurisdictions are struggling most—notably, in deepening the understanding of ML and TF risks, developing risk-based policies and strategies, and effectively communicating risks to public and private stakeholders.

Some more-specific suggestions for improvement and clarification of international standards and a list for possible future research topics that emerged during this study are provided in the final chapter of the report.



# Introduction

## Objective and Target Audience

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Understanding and assessing risks related to the proceeds of crime, money laundering (ML), and terrorist financing (TF) and developing risk-based and effective measures to mitigate those risks are important for creating a stable and safe environment that enables economic development and shared prosperity. Development efforts can be effective only on a stable foundation that is safe from erosion by corruption, organized crime, and other security risks. This foundation is also important for preventing the siphoning of valuable national resources through illicit financial flows.

This report aims to guide the policy makers in World Bank client jurisdictions in continuously improving their assessments and understandings of money laundering and terrorist financing risks in their jurisdictions. To this end, the report attempts to draw lessons mainly from

- Observations and experiences from more than 100 World Bank technical assistance projects that supported client jurisdictions' National ML/TF Risk Assessments (NRAs) and
- An analysis of feedback on NRAs in 146 mutual evaluations conducted by the Financial Action Task Force (FATF) and FATF-style regional bodies (FSRBs), the International Monetary Fund (IMF), and the World Bank.

In addition to country authorities, the target audience includes the FATF and FSRBs, other relevant international organizations and technical assistance providers, and academia. One of the objectives of the study was to establish a public database that can be leveraged for other studies and research in the field.

This study does not aim to review the NRAs themselves or do quality control of NRAs in study jurisdictions. Rather it assumes that the feedback in mutual evaluation reports on NRAs, which are also the basis for the country ratings, are valid. Also, the study does not aim to examine the accuracy and efficiency of methodologies and conceptual frameworks used for NRAs. Although all these topics are important, they are not in the scope of this study and require further research supported by additional resources.



## Background

### Risk-Based Approach in FATF Recommendations

The FATF, an intergovernmental organization founded in 1989, leads the global fight against money laundering, terrorist financing, and proliferation financing. The FATF sets international policy standards on anti-money laundering (AML), countering the financing of terrorism (CFT), and countering proliferation financing (CPF),<sup>2</sup> namely, the FATF 40 Recommendations. The FATF guides countries worldwide in complying with these recommendations and monitors their compliance with these standards (including their effectiveness), which are formulated as 11 Immediate Outcomes (IOs).<sup>3</sup>

FATF Recommendation 1 (R1) requires countries to understand their money laundering, terrorist financing, and proliferation financing risks and to apply a risk-based approach (RBA) to AML/CFT/CPF. This approach is defined in R1 and woven into other recommendations, including Recommendation 2 (on national coordination and cooperation), Recommendation 10 (on customer due diligence), Recommendation 26 (on regulation and supervision of financial institutions), and many others. Because of its cascading impact on many other recommendations, R1 is of key importance.

R1 provides an overarching requirement to assess and understand the risks at the national level as well as the risks for financial institutions (FIs) and designated nonfinancial businesses and professions (DNFBPs) (appendix A). In

addition to this general requirement, Recommendations 8, 15, and 24 contain more-specific requirements to assess ML/TF risks. Recommendation 8 and its interpretative note require countries to assess TF risks that nonprofit organizations (NPOs) are subject to and apply risk-based mitigation measures. Recommendation 15 requires assessment of money laundering and terrorist financing risks posed by new technologies and their providers, including virtual asset service providers (VASPs). Recommendation 24 (on transparency and beneficial ownership of legal persons) contains a specific provision that requires countries to assess the risks of misuse of legal persons for money laundering or terrorist financing.

In the FATF's assessment methodology, Immediate Outcome 1 (IO1) defines characteristics of an effective risk-based approach and contains the criteria to assess this effectiveness (appendix B). As of the date of this study, mutual evaluation reports (MERs) of 146 jurisdictions were officially completed and adopted. Relevant sections of all these reports were included in the analysis. The analysis of MERs focuses mainly on issues in the quality of ML/TF risk assessments that are covered under the assessments of IO1. The study includes some limited analyses of the RBA-related components of IO4 (on the effectiveness of preventive measures by reporting entities) and IO5 (on the effectiveness of measures to prevent the misuse of legal persons and arrangements). IO3 on supervision also has risk-based components but has not been included in this analysis mainly because of resource and time constraints.

<sup>2</sup> Proliferation financing (PF) refers to implementation of financial provisions of the United Nations Security Council resolutions to counter the proliferation of weapons of mass destruction. Because PF risk assessment was added to FATF Recommendation 1 very recently (in 2022), it was not included in the NRAs and mutual evaluations analyzed in this study. Therefore, this report does not contain any references to PF and CPF except in this introductory chapter.

<sup>3</sup> Quoted with adjustments from Celik et al. (2020).

## What a National ML/TF Risk Assessment Is

A National ML/TF Risk Assessment is an organized process for assessing the ML/TF risks at a national level and in various sectors that are gatekeepers of the economy and financial system of a jurisdiction. Usually, these assessments are conducted with the involvement and input of a wide range of stakeholders in the jurisdiction, including financial intelligence units (FIUs), law enforcement agencies (LEAs), prosecution and judicial authorities, national intelligence agencies, financial and DNFBPs supervision authorities, customs and tax authorities, and statistics agencies. Generally, the private sector also is included in the NRA process.

In February 2013, the FATF published its guidance on National ML/TF Risk Assessments (FATF 2013). In line with its objective, the guidance was principle based and did not prescribe or define any methodology for the assessment of ML/TF risks.<sup>4</sup>

To support its clients in their compliance with international standards, the World Bank developed a National Money Laundering and Terrorist Financing Risk Assessment Tool (NRA Tool). Since 2012, the World Bank has provided training and guidance to support 114 client jurisdictions on how to use this tool to conduct their NRAs. These technical assistance activities provided many lessons, most of which were integrated into later NRA projects by the World Bank technical teams.

FATF standards are not prescriptive about the need for an NRA; the assessment can be completed through other comprehensive approaches. Most jurisdictions preferred to conduct a single NRA, but some produced separate NRAs of ML and TF. Others assessed risks using a sector-by-sector approach over time rather than implementing a single workstream at the national level by conducting an NRA. These alternative approaches also comply with R1, which requires assessing and understanding risks, not necessarily conducting an NRA.

## Differences between National Risk Assessment and Mutual Evaluation

For readers of this report who may be unfamiliar with the AML/CFT literature, it is important to distinguish between two key concepts that are related but different: (a) National ML/TF Risk Assessments, and (b) mutual evaluations. Both concepts frequently are referred to as “assessments,” which can be confusing. To clarify, a national risk assessment is a self-assessment conducted by a jurisdiction to comply mainly with FATF R1; a mutual evaluation is an external compliance and

effectiveness assessment conducted by the FATF, FSRBs, IMF, and World Bank. A mutual evaluation assesses a jurisdiction’s compliance and effectiveness on all 40 Recommendations and 11 Immediate Outcomes, and it contains, but is not limited to, R1 on understanding risks and applying an RBA.

The National ML/TF Risk Assessment in a jurisdiction and updates—as necessary—should be done before the mutual evaluation of a country. Please refer to appendix C for a comparison of an NRA and a mutual evaluation.

During a mutual evaluation, external assessors evaluate the technical compliance of a jurisdiction with all 40 Recommendations as well as the effectiveness of a jurisdiction’s AML/CFT regime, which is formulated as 11 Immediate Outcomes. The range of technical compliance ratings include noncompliant (NC), partially compliant (PC), largely compliant (LC), and compliant (C). Effectiveness can be rated as low effectiveness (LE), moderate effectiveness (ME), substantial effectiveness (SE), and high effectiveness (HE). NC and PC in technical compliance, and LE and ME in effectiveness assessment have negative implications, because certain numbers in those categories may lead to enhanced follow-up and gray listing of jurisdictions. LC and C in technical compliance and SE and HE in effectiveness are good ratings that are favorable for jurisdictions.

## Literature Review

The FATF began requiring the risk-based approach to AML/CFT in 2012. The assessment criteria to be used during mutual evaluations to examine the quality of a jurisdiction’s risk-based approach are defined in *Methodology for Assessing Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems* (FATF 2021). The FATF also published two other documents to guide jurisdictions in assessing ML/TF risks: *FATF Guidance: National Money Laundering and Terrorist Financing Risk Assessment* (FATF 2013) and *Terrorist Financing Risk Assessment Guidance* (FATF 2019). In the current round of mutual evaluations, as of the study date, assessor organizations had published 147 mutual evaluation reports, 146 of which were included in this study.

In April 2022, the FATF published a study titled *Report on the State of Effectiveness and Compliance with the FATF Standards* (FATF 2022). That report relies on fourth-round MERs, as does this study, and draws various conclusions about the strengths and weaknesses of jurisdictions’ AML/

<sup>4</sup> Celik et al. (2020).

CFT regimes using a holistic approach based mainly on the technical compliance and effectiveness ratings of jurisdictions. The first chapter of the report, “Assessment of Risk, Coordination and Policy Setting,” focuses on analysis of compliance with R1 and IO1 and uses the related data in MERs.

The World Bank also conducted a holistic review of MERs, with specific focus on implementation of a risk-based approach in the context of financial inclusion: “*The Impact of the FATF Recommendations and Their Implementation on Financial Inclusion*” Celik (2021). This report finds that, paradoxically, low-capacity countries that are most in need of RBA to tackle financial inclusion problems use RBA the least.

The current study follows a methodology similar to FATF (2022) and (Celik 2021) and attempts to draw some lessons based on a holistic review of MERs as well as field experiences from the World Bank’s NRA projects. Unlike FATF 2022, this report attempts a more in-depth analysis of IO1 and risk-related components of IO4 and IO5 in MERs by reviewing and quantifying the information in the discussions of core issues and in justifications of effectiveness ratings.

In addition to those publications, which are based on holistic reviews of MERs, academic studies have aimed at contributing to national or supranational risk novel approaches to assessing ML/TF risks or examining the quality and accuracy of selected countries’ national risk assessments. For example, in “*National Assessments of Money Laundering Risks: Learning from Eight Advanced Countries’ NRAs*,” Joras Ferwerda and Peter Reuter (2022) criticize the NRA methodologies of study countries because the NRAs generally relied on not-well-established “expert opinions” instead of quantitative data; the suspicious transaction reports were misinterpreted; and the risk assessments could not produce a viable output for the governments. In another study, Ferwerda and Reuter examine the NRAs of Italy and Switzerland (Ferwerda and Reuter 2019) from a similar point of view.

Michael Levi, Peter Reuter, and Terence Halliday also analyzed some countries’ MERs and NRA reports: “*Can the AML System Be Evaluated without Better Data?*” (2018) emphasizes the importance of data in the development of national policies for AML regimes.

This study differs from these academic reports in that it does not attempt to examine possible conceptual or methodological issues related to NRAs.

## Methodology and Data Collection

For this analysis, the project team reviewed 146 MERs that were completed and published under the 2012 FATF Recommendations and assessment methodology. The analysis focuses on the assessments of the risk-based approach to AML/CFT, particularly R1 and IO1, which are directly related to the understanding and assessment of risks and implementation of an RBA at the national level. The analysis also covers the risk-based components of IO4 and IO5, to a more limited extent. The analysis is based on the MERs but does not include the follow-up reports; thus, the analysis does not consider developments that occurred after the MERs’ dates.

The main research questions are these:

- Why are countries being criticized for their risk-based approach to AML/CFT, and what are the impacts of these criticisms on their relevant ratings?
- What lessons can be drawn from the World Bank Financial Market Integrity team’s field experiences to guide client countries to a deeper and more accurate understanding of their risks and more-robust risk-based approaches to AML/CFT?

In addition to utilizing the jurisdiction ratings, which are publicly available at the FATF’s website,<sup>5</sup> this study attempts to further break down these ratings into their component parts. These components—formulated as criticism categories—are linked to the assessment criteria described in the FATF’s assessment methodology but are not necessarily mapped to the criteria on an item-by-item basis. Criticism related mainly to Immediate Outcome 1 and risk-related components of Immediate Outcomes 4 and 5 in MERs was examined.

“Criticism” refers to negative remarks and feedback in the report; comments and findings on gaps, inefficiencies, and problems are included. Mutual evaluation reports have standard outlines structured around immediate outcomes. The assessment of each immediate outcome contains a discussion of assessment criteria, recommended actions to address the identified issues, the immediate outcome rating, and a brief section explaining the reasoning of the assigned rating. The degree of criticism is based mainly on how an issue was covered in these sections.

5 <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Assessment-ratings.html>

For quantification, the intensity of criticism in each category for each jurisdiction is scored as follows:

- **1: Lighter Criticism (compared to other two categories):** Criticisms in the MER for these factors are limited and are of a more commentary nature. The assessors criticized these factors but did not cite them directly in their justification of the rating or in recommended actions.
- **2: Moderate Criticism:** Assessors criticized these factors repeatedly in the MER and/or covered them in recommended actions but did not cite them explicitly and directly among the reasons for the ratings assigned to the jurisdiction.
- **3: Strong Criticism:** Deficiencies and problems affected the assessors' rating of a jurisdiction in an explicit and direct way, meaning the assessors cited them among the reasons that prevented a higher rating for a specific jurisdiction.

In the following sections, references to an impact on rating mean a direct and explicit impact as defined in 3: Strong Criticism. This impact may have happened during either the assessment or the review stage, before the official release of the mutual evaluation report.

Despite this framework and corresponding criteria for categorization, in some cases the decision as to which of the three categories a specific criticism in a MER would fall into was not straightforward. In such cases, interpretation by the project team was necessary, a requirement which added a degree of subjectivity to the analysis.

In addition, although the criticisms were scored and organized in three categories in the study database, most of the charts in the report use a more simplified representation that compares "Strong Criticism" figures with "Total Criticism." The latter contains all criticisms in categories 1, 2, and 3.

In various analyses, the study compared the figures of FATF

countries with FSRB-only countries, since there may be visible differences between these two main groups. The latter is dominated by developing jurisdictions. Therefore, although not precise, the figures for the FSRB group constitute a proxy for developing countries. In such analyses, countries that are members of both the FATF and one or more FSRBs were counted as FATF only and were not included in the statistics of FSRBs.

The observations on the World Bank experiences belong mainly to the author. Also, under the scope of this project a workshop was organized with the participation of the World Bank staff who led the country-specific NRA projects, to incorporate their inputs in the study. Some of these experiences have already been incorporated in the World Bank's NRA guidance material by the Financial Market Integrity team throughout the technical assistance activities.

Under the scope of this study, the study team conducted two surveys through electronic polling on the margins of two separate NRA-related training/dissemination events, considering the participants at these events were technical experts who took part or expected to take part in NRAs in a diverse range of countries. The inputs from these surveys have been incorporated in the report to complement the analysis. One survey (NRA Survey 1) drew the participation of more than 250 officials from more than 60 countries. Another survey (NRA Survey 2) drew about 170 experts from 48 countries. Most participants in these surveys were from World Bank client countries that are FSRB members. Survey questions are in appendix D.

The risk assessment and a risk-based approach related to proliferation financing were not included in this study, since they were added to R1 and relevant to IOs only very recently.





# Global State of Risk-Based Approach to AML/CFT after Its First Decade

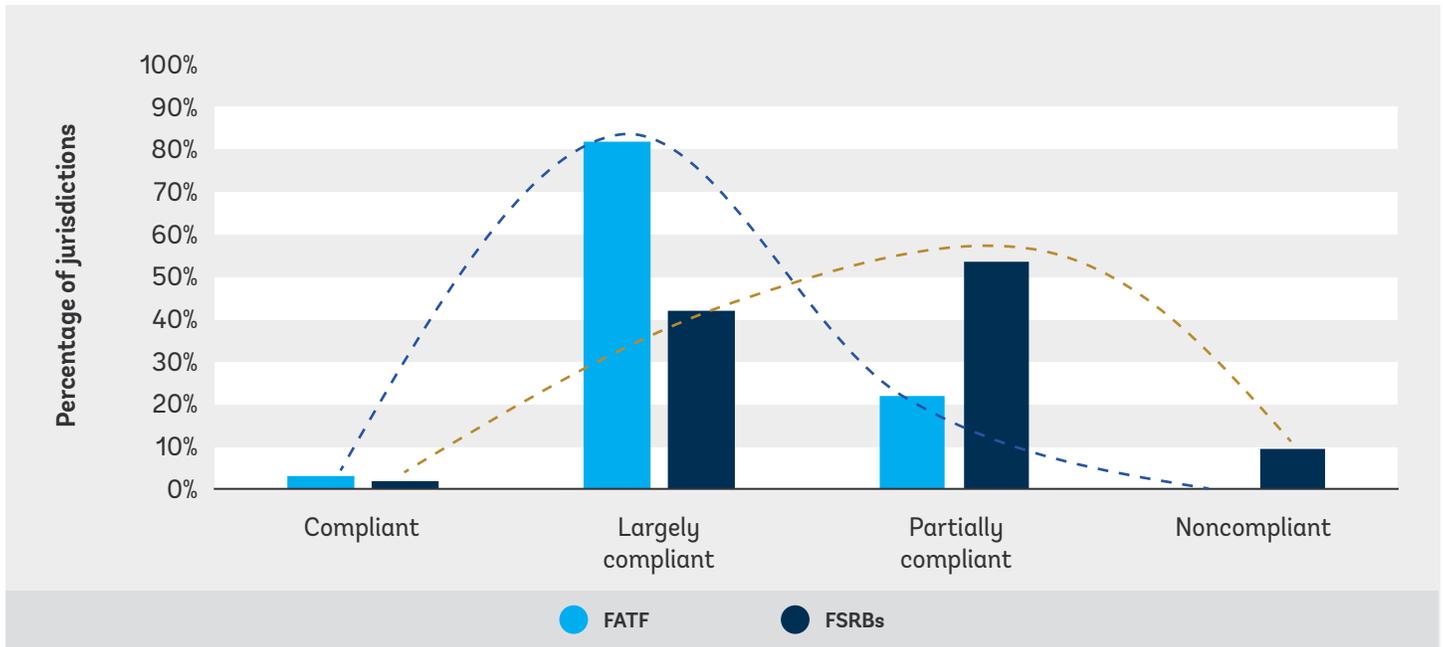
## In Progress, Uneven, and Yet to Be Effective

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Figures 1 and 2 present the most up-to-date status of technical compliance (with R1) and effectiveness (IO1) based on MERs of 146 jurisdictions. FATF countries perform better on both effectiveness and technical compliance ratings. While a majority of FATF countries are rated as substantially effective in IO1, FSRBs show flatter distributions that center around moderate effectiveness. In FSRBs, more than 30 percent of the countries still exhibit low-level effectiveness. A more granular analysis of FSRBs shows that the average rating is heavily affected by widespread effectiveness issues among sub-Saharan FSRB members (appendix E).

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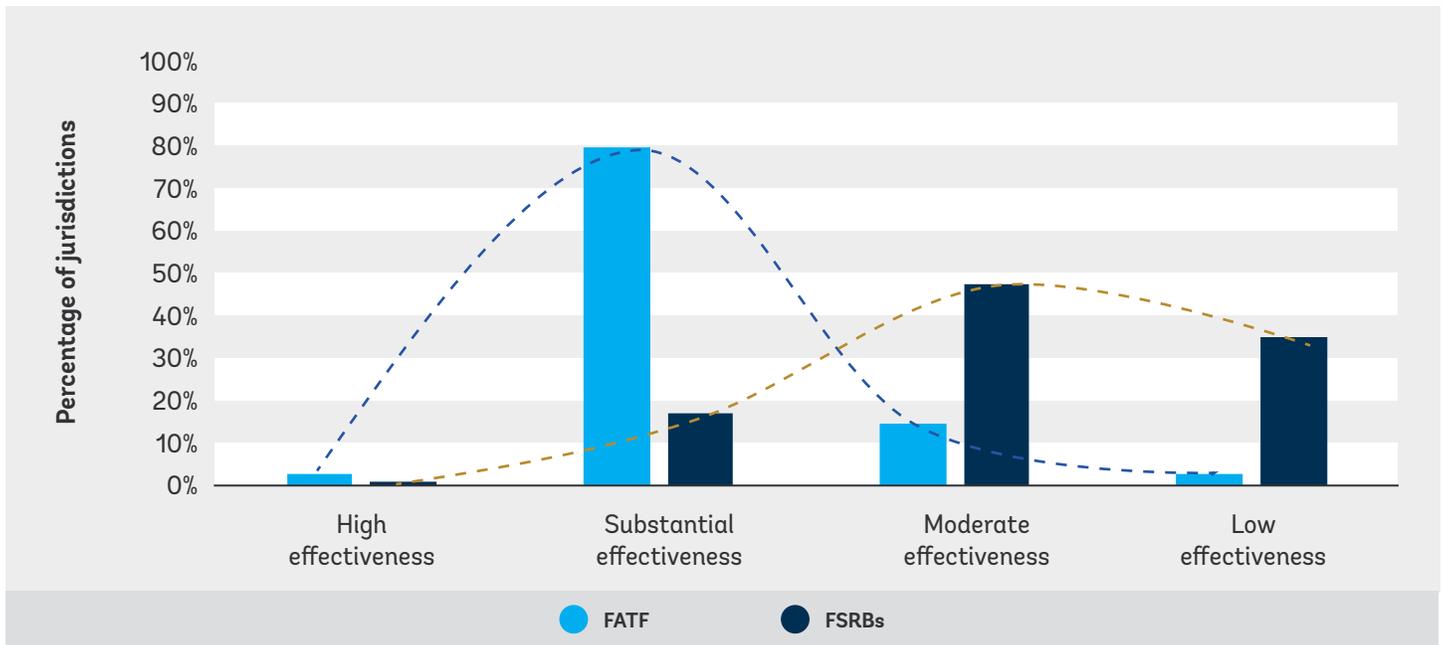
**FIGURE 1. Distribution of R1 (Technical Compliance) Ratings**



Source: Data compiled from Financial Action Task Force website (June 2023).  
Note: FATF = Financial Action Task Force; FSRBs = FATF-style regional bodies.

> > >

**FIGURE 2. Distribution of IO1 (Effectiveness) Ratings**



Source: Data compiled from Financial Action Task Force website (June 2023).  
Note: FATF = Financial Action Task Force; FSRBs = FATF-style regional bodies.

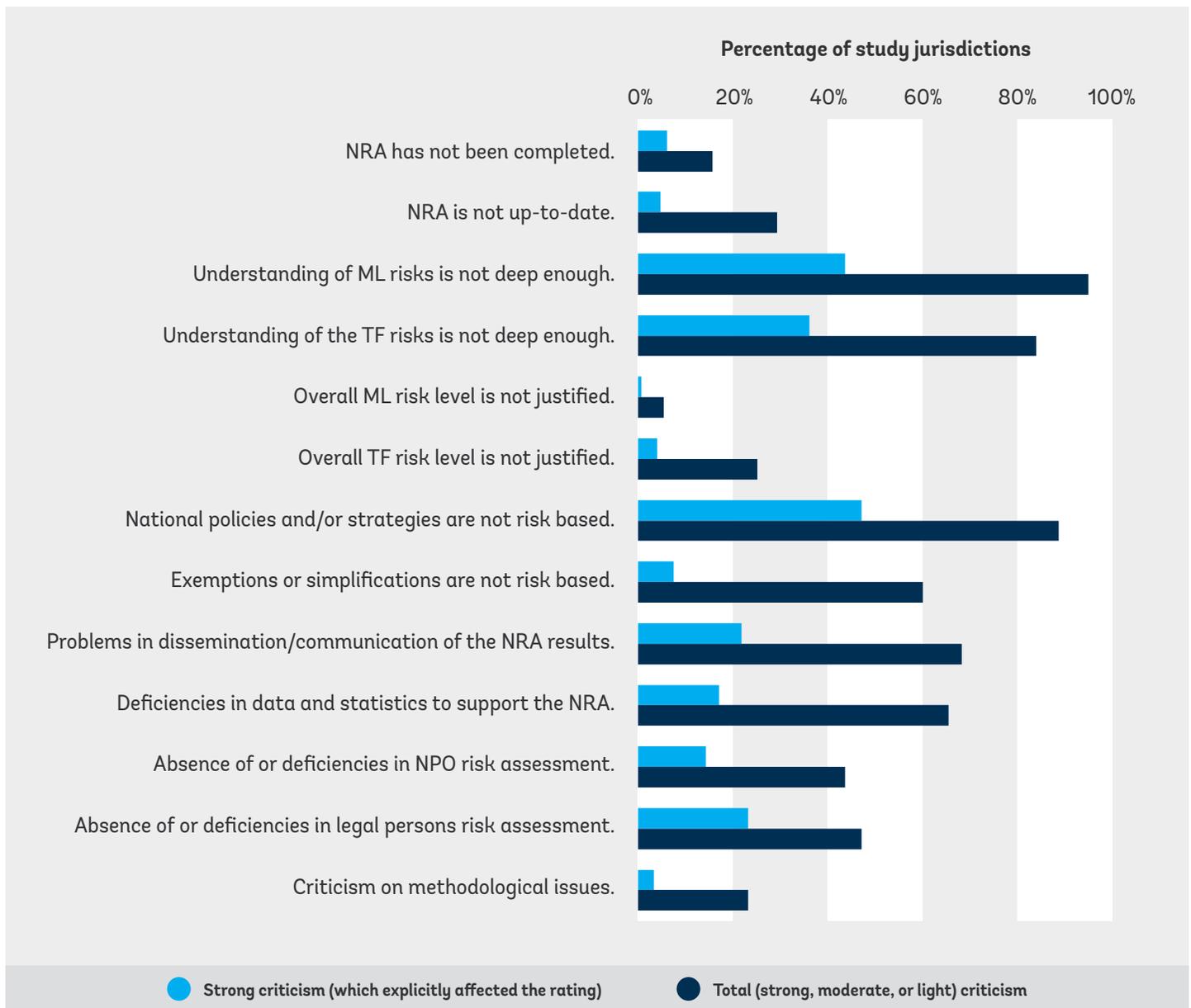
# Risk Assessments Are Not Deep and Do Not Lead to Risk-Based Approaches

In MERs, the project team investigated the criticisms related to assessing and understanding ML/TF risks. Some of these criticisms had direct and explicit effects on the ratings of some jurisdictions while others did not. The criticisms that

did affect ratings are labeled as strong criticism pursuant to the methodology explained in the introduction of this report. Figure 3 summarizes the results of this analysis. A more detailed version of this analysis appears in appendix E, figure E.1.

> > >

**FIGURE 3. Criticisms under Immediate Outcome 1, by Percentage of 146 Assessed Jurisdictions**



Source: Study data based on mutual evaluation reports.

Note: ML = money laundering; NPO = nonprofit organization; NRA = national risk assessment; TF = terrorist financing.

This analysis required quantification of the information in the MERs, since the assessment criteria are individually discussed in the reports but not rated. Rather, the rating is assigned by the assessors based on the overall weight of the substantive issues. As explained in the methodology section, the team identified possible reasons that may affect IO1 on the effectiveness of the RBA and examined whether the countries were criticized for any of those reasons. If they were, the degree of criticism was rated from one to three according to its impact on the mutual evaluation results. The objective was to understand the most common challenges countries face. The analysis shows that the most substantial and widespread deficiencies concern the depth of understanding and analysis of ML and TF risks and countries' ability to convert these risk assessments into risk-based national policies and strategies.

Of the 146 jurisdictions that have had mutual evaluations, 95 percent have received some sort of criticism related to the depth and comprehensiveness of their assessments, and the ratings of 44 percent were affected for the same reason. In another striking figure, 89 percent of all countries were criticized to some degree, and ratings of 47 percent were directly affected owing to the lack of risk-based national policies and strategies. Indeed, this is the most common factor that affected IO1 ratings directly.<sup>6</sup>

Table 1 shows the average degree of criticism in FATF and FSRBs on a 0–3 scale. The problems seem more intense in sub-Saharan FSRBs. The Financial Action Task Force of Latin America (GAFILAT) and the Eurasian Group on combating money laundering and financing of terrorism (EAG), among FSRBs, have a relatively good outlook.

> > >

**TABLE 1. Issues Related to Risk-Based Approach (in IO1) in FSRBs**

Degree of criticism in the FATF and FSRBs	APG	CFATF	EAG	ESAAMLG	FATF	GABAC	GAFILAT	GIABA	MENAFATF	MONEYVAL	OVERALL
Understanding of ML risks is not deep enough.	2.5	2.1	2.0	2.4	1.7	2.7	1.9	2.4	2.5	2.4	2.2
National policies and/or strategies are not risk based.	2.2	2.4	1.3	2.7	1.7	2.7	2.0	2.6	2.4	1.9	2.1
Understanding of TF risks is not deep enough.	1.8	2.4	1.5	2.6	1.0	2.7	1.8	2.3	1.9	2.1	1.9
Problems in dissemination/communication of the NRA results.	1.8	1.9	0.8	1.9	1.0	3.0	0.5	2.2	1.9	1.1	1.4
Problems in data and statistics to support understanding of risks.	1.1	1.3	1.5	0.8	1.0	2.7	1.4	2.5	1.5	1.2	1.3
Exemptions or simplifications not risk based.	0.6	0.7	0.5	0.4	0.8	0.3	0.4	0.6	0.4	0.8	0.6
Absence of or deficiencies in legal persons risk assessment.	0.7	0.6	0.5	0.6	0.4	0.3	0.1	0.7	0.3	0.7	0.5
NRA is not up-to-date.	0.4	0.9	0.5	1.0	0.2	0.3	0.3	0.5	0.9	0.2	0.4
Absence of or deficiencies in NPO risk assessment.	0.5	0.5	1.0	0.5	0.3	0.3	0.2	0.8	0.5	0.5	0.4
Overall TF risk in the NRA is not justified.	0.5	0.6	0.8	0.5	0.1	0.7	0.5	0.8	0.1	0.4	0.4
Criticism on methodological issues.	0.2	0.2	0.5	0.1	0.7	0.3	0.2	0.8	0.0	0.4	0.4
An NRA has not been completed yet.	0.3	0.7	0.0	1.4	0.0	0.7	0.0	0.3	1.0	0.0	0.3
Overall ML risk in NRA not justified.	0.1	0.0	0.0	0.0	0.1	0.0	0.2	0.3	0.1	0.1	0.1

Source: Study data based on mutual evaluation reports.

Note: The scores in the table are based on the mean of all countries in the FATF or an FSRB. The scale for the degree of criticism is 0.0 (lowest) to 3.0 (highest). ML = money laundering; TF = terrorist financing; NRA = National ML/TF Risk Assessment; NPO = nonprofit organization; APG = Asia/Pacific Group on Money Laundering; CFATF = Caribbean Financial Action Task Force; EAG = Eurasian Group; ESAAMLG = Eastern and Southern Africa Anti-Money Laundering Group; FATF = Financial Action Task Force; FSRBs = FATF-style regional bodies; GABAC = Action Group against Money Laundering in Central Africa; GAFILAT = Financial Action Task Force of Latin America; GIABA = Inter-Governmental Action Group against Money Laundering in West Africa; MENAFATF = Middle East and North Africa Financial Action Task Force; MONEYVAL = Committee of Experts on the Evaluation of AML/CFT.

The study team also ran a Spearman's correlation analysis between the IO1 ratings and criticisms in different categories. The results for individual categories are summarized in appendix E, figure E.3. There is a -0.68 (Spearman's) correlation between IO1 scores and the problems related to risk-based national policies and strategies. In addition to deficiencies related to that issue and the depth of ML/TF risk assessments, IO1 results are also highly correlated with problems in the dissemination and communication of NRA results (correlation value = -0.54 and is statistically significant at 95 percent significance level).

6 A strong negative Spearman's correlation (rho value = -0.68 at p-value = 0.0001) suggests that IO1 effectiveness is strongly and negatively associated with the lack of risk-based national policies and strategies..



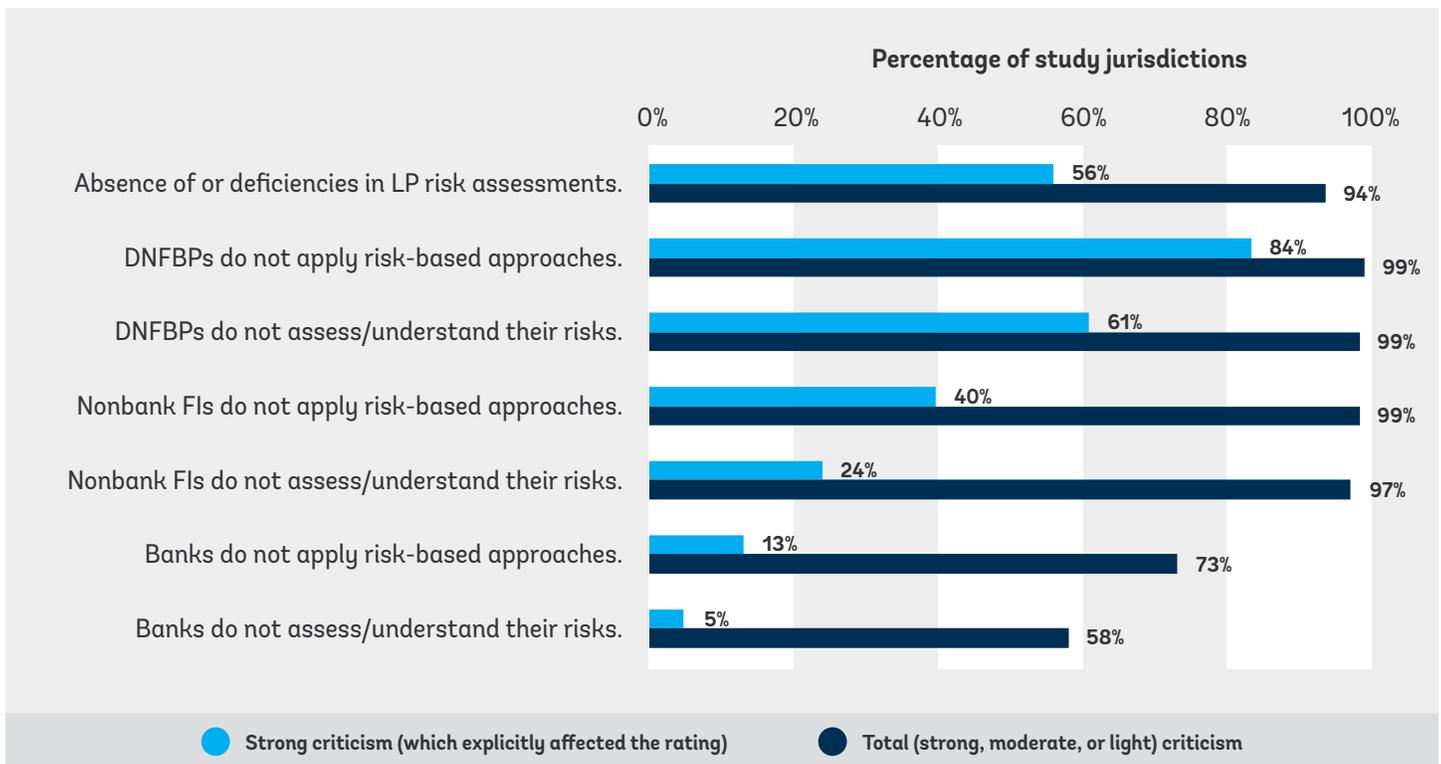
## Progress in Risk-Based Approach at Sectors Is Limited

As discussed in the introductory section of this report, the scope of the risk-based approach in the FATF Recommendations and assessment criteria is broader than R1 and IO1. The study team attempted to expand the analysis to risk-based components of IO4 and IO5 to capture the status of a risk-

based approach to ML/TF by financial institutions and designated nonfinancial businesses and professionals, and the application of the risk-based approach to legal persons (LPs).<sup>7</sup> Figure 4 shows the results of this analysis.

> > >

**FIGURE 4. Criticism on Risk-Based Approach at Various Sectors, as a Percentage of Study Jurisdictions**



Source: Study data based on mutual evaluation reports.

Note: Nonbank FIs = nonbank financial institutions; DNFBPs = designated nonfinancial businesses and professions; LP = legal person.

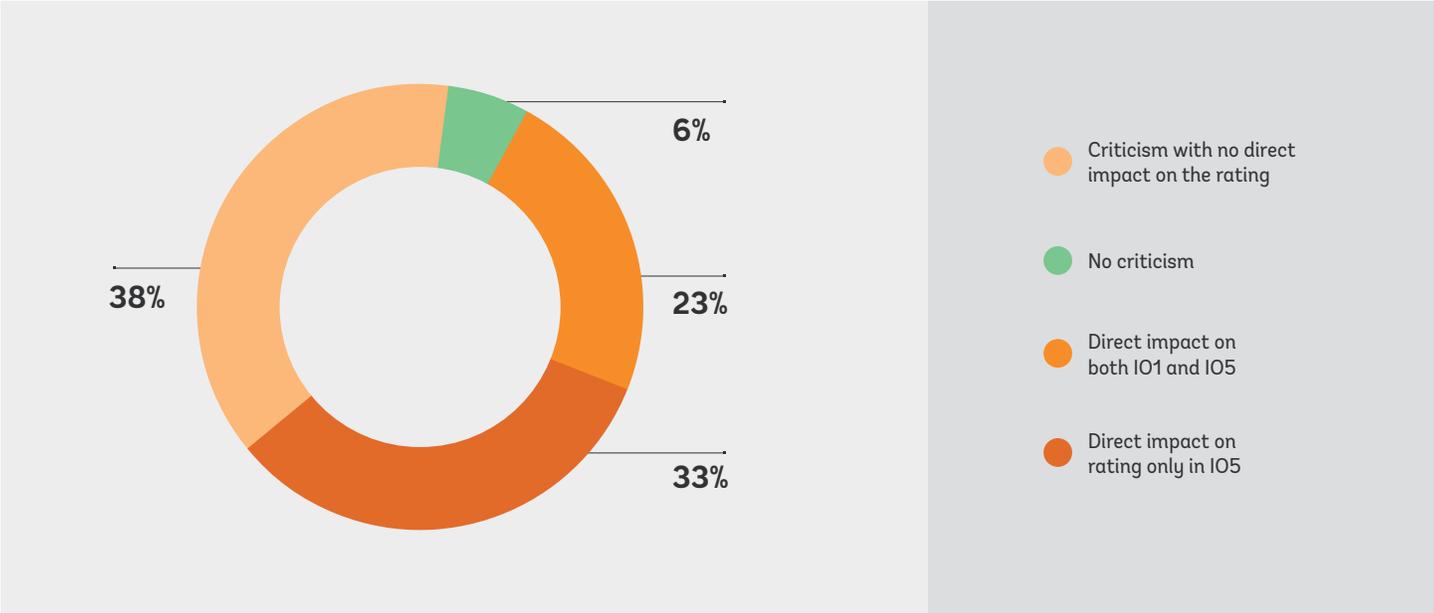
<sup>7</sup> In the FATF Recommendations, “legal persons” refers to any entities other than natural persons that can establish a permanent customer relationship with a financial institution or otherwise own property. This can include companies, corporate bodies, foundations, anstalt, partnerships, or associations and other relevantly similar entities.

Problems related to the ML/TF risk assessment of LPs seem widespread. During the assessment process, 94 percent of jurisdictions were criticized, and ratings of 56 percent were directly affected by deficiencies in this area. Figure 5 shows a more granular analysis related to assessors' handling of LP risk assessments. Interestingly, the ratings of 23 percent of jurisdictions were impacted directly in both IO1 and IO5 owing to the lack of or deficiencies in the risk assessment of LPs, whereas ratings of 33 percent were affected only in IO5. These results may indicate an issue regarding handling of LP risk assessments by evaluators during the mutual evaluations. Evaluators may not be fully clear about whether deficiencies in LP risk assessment should be considered in IO1 in addition

to IO5, thus causing discrepancies in the assessments of different jurisdictions. More guidance by the FATF for assessors could help reduce possible confusions and inconsistencies in this regard.

The FATF and technical assistance providers may consider improving guidance and facilitating the sharing of best practices in the areas where jurisdictions are struggling most, notably in developing risk-based policies and strategies, deepening the understanding of risks, and effectively communicating risks to relevant stakeholders. Academic work should be better leveraged for a deeper understanding of risks, at both international and national levels.

> > >  
**FIGURE 5. Impact of Deficiencies in ML/TF Risk Assessment of Legal Persons in IO1 and IO5, as a Percentage of Study Jurisdictions**



Source: Study data based on mutual evaluation reports.  
 Note: ML = money laundering; TF = terrorist financing; IO1 = Immediate Outcome 1; IO5 = Immediate Outcome 5.



# Lessons Learned from the National Risk Assessments That the World Bank Assisted

## Some Overarching Recommendations for a High-Quality NRA

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### Do It for Your Own Good

While assessing the ML/TF risks, any country should make its first priority the safety and security of the country and its citizens against money laundering and terrorist financing, and eventually against the criminal organizations and the terrorist entities relying on these criminal funds. The experts who lead and undertake the risk assessment should understand and believe that this assessment will improve the efficiency of the mechanisms that fight criminal money and financial flows and ultimately help suppress corruption, fraud, drug trafficking, terrorism, and other serious crimes and contribute to a safer, more just, and more prosperous country. This understanding and motivation will lead to a real assessment and real solutions that go beyond just checking a box.

Thus, satisfying the FATF or FSRB assessors and the international community should not be the main concern of an NRA. This point does not contradict the fact that the assessment is required by the FATF standards and that the FATF/FSRB mutual evaluation assessors are a de facto audience. Accommodating them is a complementary goal. The sincerity and motivation of the government is a significant factor that will support the quality of the NRA and the effectiveness of recommended actions. Conversely, the FATF and FSRBs should train their assessors to appreciate and consider the motivation and sincere effort of the country as an important factor in reaching their ratings. In other words, transparency of a jurisdiction about their risks should be considered as a positive factor in deciding the ratings.

Assessing ML/TF risks is a complicated task that demands considerable time, effort, and human and other resources. For any country to waste these valuable resources without meaningful benefit in the day-to-day life of its citizens would be unfortunate. For real change to occur, the value given to the NRA by policy makers, the right training and motivation of the experts who take part in the assessment, and their empowerment by governments are fundamental.



## Identify the Objective and the Target Audience Clearly

The objective and target audience should function as a guideline for the right alignment of the entire NRA process. The objective, expected outputs, and target audience should be identified clearly at the planning stage and communicated to the experts who will carry out the exercise.

Indeed, the main objective of the NRA is defined by the FATF standards themselves and can be summarized as understanding the ML/TF risks to inform a risk-based approach to AML/CFT at all levels, including the national, sectoral, and institutional levels. This scope is the minimum that is mandated by international standards. However, a country may find synergies between the ML/TF risk assessment and other policy objectives and may decide to expand the objective to other relevant fields, such as illicit financial flows, anticorruption, bilateral sanctions, financial inclusion, and so on. However, these activities should not dilute the focus on the main objective.

Identifying the target outputs under the NRA and how they will feed into the objective can also provide guidance to the NRA leadership and working group. These outputs can be defined for each subcomponent of the risk assessment, such as threats, vulnerabilities, or specific sectors.

Leaders must remember that the objective may not be fully clear to some experts participating in NRAs. Even if some experts are more familiar with AML/CFT and risk assessment or were involved in past risk assessments, in most cases there will be newcomers to the NRA exercise. In particular, experts from agencies other than the financial intelligence units and similar authorities directly responsible for AML/CFT may not be aware of basic AML/CFT concepts, let alone the objective of an NRA. Therefore, it is important for the leadership of an NRA to understand the background and knowledge level of the experts who are involved in NRAs and to guide and support them accordingly. In this regard, a refresher training on the risk-based approach to AML/CFT at the beginning of the NRA process is a good practice.

Another important consideration is the target audience. Although not explicitly listed by the FATF, the minimum target audience can be inferred from the recommendations themselves as follows:

- Policy makers at the national level, including the national body for AML/CFT coordination;
- Legislative branch, in case the NRA is expected to lead to revisions in legislation;
- AML/CFT regulators and supervisors for the financial sector, DNFBPs, and VASPs;
- Regulators/supervisors for legal persons and NPOs;
- Financial intelligence units;
- Law enforcement and prosecutorial authorities; and
- Financial institutions, DNFBPs, VASPs, NPOs.

This list can also serve as a test for the quality and comprehensiveness of an NRA. A high-quality NRA should provide meaningful inputs to this list of stakeholders and help improve the effectiveness of the stakeholders in fulfilling their AML/CFT-related roles and tasks. In addition to these basic stakeholders, a country may decide to expand the target audience to the public, the academic and international communities, and so on. However, this expansion should not influence the focus on the main stakeholders listed or reduce the quality of the information they receive. As an example, these main audiences would hardly benefit from technical details or methodological discussions. Rather, practical information on typologies, sources of risks, weaknesses in the AML/CFT system, recommended actions, and red-flag indicators will be much more useful for key stakeholders.

Other categories can be considered audience members as well. These include the evaluators who conduct the mutual evaluation of the jurisdiction on behalf of the FATF or FSRBs. As per the FATF Assessment Methodology, these evaluators must examine the quality of the jurisdiction's assessment and understanding of ML/TF risks. The future generation of experts in the jurisdiction can also be considered among the audience of a risk assessment. For any jurisdiction, it is important to document the ML/TF risk assessment properly and retain the records. Such records will help the jurisdiction maintain the legacy of each NRA experience and build capacity for future risk assessments. And finally, countries and NRA experts should be aware that the criminals who put the nation and its sectors at risk are interested in this information and may themselves be among the audience. While a public NRA document should convey the message of determination in AML/CFT efforts and can be useful for raising awareness and achieving some policy purposes, it must not publicize any confidential details and unaddressed deficiencies that were revealed during the assessment.

## Identify the Right Person to Lead the NRA, and Invest in Leadership

Assigning a project or task team leader who possesses appropriate seniority, leadership, and project management skills and empowering this individual with the appropriate authority, support team, and resources is essential and has a direct impact on the quality of the NRA. In the World Bank's experience, jurisdictions with strong leadership of their NRAs ran the assessment more effectively and were much more punctual in following their NRA roadmaps and timelines. In contrast, jurisdictions with weaker leadership had lower-quality and more-diluted NRAs that took much longer or were never completed. In some cases, when the authorities were not able to bring the NRA to a clear end, the World Bank team had to cancel the country's technical assistance program because of the lack of response to follow-up efforts.

By its nature, an NRA is a wide-scale exercise that encompasses a large number of agencies with different priorities and characteristics, as well as the private sector, where the business rationale often differs drastically from the state agencies'. A good leader should have the skills and authority to bring all the stakeholders together around the NRA exercise to make the best use of their experiences, technical knowledge, and resources in contributing to the NRA.

In many jurisdictions domestic cooperation in AML/CFT is not at a desirable level, and the AML/CFT coordination committee or body is not fully effective. Although significant progress has been made in recent years, the financial intelligence units, which have key roles in NRAs, are still not always understood and recognized by the other state agencies. These cooperation challenges become much more visible when it comes to information and data sharing among agencies during an NRA.

For example, in several jurisdictions, obtaining statistics from the office of the prosecution and law enforcement agencies and ensuring their ongoing participation in the NRA have been an all-too-common challenge. Although the contribution of prosecutors is key to the NRA, in many jurisdictions getting them on board has been very difficult. Their excessive workload was frequently cited as the underlying reason. But when the prosecutors joined the NRA, sometimes with extra follow-up efforts, their contributions to the NRA were received as very valuable by the rest of the working group.

Indeed, the lack of cooperation in NRAs can and should be read as a sign of a lack of cooperation in the broader AML/CFT agenda in the country. The NRA process offers an opportunity to identify these coordination problems and

improve stakeholder collaboration. World Bank teams have done feedback surveys in almost all NRA workshops, and one of the most appreciated aspects of the NRA exercises was the interaction and strengthened cooperation among stakeholders. In many jurisdictions, the NRA was the first time such a broad interaction occurred among AML/CFT agencies, as well as between these agencies and the private sector.

The leadership of the NRA is critical not only to the success of the NRA but also to promoting and leveraging the NRA as an opportunity to understand and address coordination challenges and to start a constructive discussion toward improving cross-agency collaboration. See box 1 for an example.

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### **BOX 1. Isle of Man National Risk Assessment**

Isle of Man was one of the first jurisdictions to collaborate with the World Bank to conduct a National Money Laundering/Terrorism Financing Risk Assessment (NRA). The jurisdiction completed the NRA in about eight months, one of the shortest periods of all jurisdictions. The Isle of Man risk assessment received quite positive feedback in the mutual evaluation. One of the key factors that played an important role in the efficiency and success of the Isle of Man's NRA was its leadership. The Isle of Man assigned a full-time, dedicated project leader to manage the NRA process. In addition to coordinating the NRA process effectively, the project leader remained engaged in the risk-based action plan and also during the mutual evaluation of the jurisdiction. In contrast, in some jurisdictions, World Bank project teams had to close NRA technical assistance projects when the leadership was unresponsive despite repeated follow-up efforts.

Healthy communication to secure high-level buy-in to the NRA process is another important consideration. The experience of the World Bank country project teams show that when all key ministries receive clear direction, data collection challenges can more often be overcome. High-level buy-in also ensures that staff assigned to the project have this work recognized as an activity they are involved in, and not as an add-on to an existing work program.

### **Empower the Assessors**

Clearly, risk assessors need to know what they are doing, so they should be selected carefully. They should possess the

experience and skills to make informed judgments during the assessment. Moreover, assessors must understand why they are performing the assessment. They should be inspired and have the confidence that the assessment will lead to meaningful results and actions that will eventually contribute to the safety and security of their country and its citizens. Therefore, at the beginning of a risk assessment, it is important to train the working group on the objective of the assessment and to motivate them about the task they are undertaking.

The assessors should have proper professional autonomy and protection to carry out their work in an independent and objective way. The assessment environment should enable candid discussions and information exchange about the risks. Both the leadership of the NRA and the management of stakeholder agencies should encourage the working group members to be professional, open, and critical during the risk assessments and guard against the fear of retaliation, even if the risk assessment reveals deficiencies and problems in their agencies and institutions.

During national risk assessment projects, as an integral part of the NRA, the World Bank has encouraged and guided the NRA working groups to develop risk-based recommendations and action plans corresponding to each recommendation. In some cases, risk assessment results may indicate a need for reform in the overall design of the AML/CFT framework, organizational structure of institutions, division of labor among different agencies, or rules and protocols about information sharing as well as amendments to laws and regulations. When developing action plans, the majority of assessors were reluctant to address these higher-level issues, which are more strategic and long term in nature; assessors tended to focus on the actions at a technical level within the framework. When working group members were advised to focus on higher-level recommendations, they perceived these high-level decisions as out of their reach and did not feel empowered to question the effectiveness of the broader AML/CFT framework. However, for a real risk-based approach to be implemented, countries should be ready to make drastic changes in their overall AML/CFT regime, if necessary, to mitigate risks and improve the effectiveness of the system.

Of course, the assessors are not the decision-makers. Such substantial changes need to be made at the managerial level—and sometimes at the ministerial level or higher. However, this reality should not prevent the assessors from questioning the effectiveness of the current AML/CFT regime in the country; assessors must always be willing to propose risk-based changes, even if they may seem drastic on their face.



## Recommendations for a Deeper Understanding of ML/TF Risks

### See the Big Picture: Forest versus Trees

One of the operational risks in an NRA process is myopia. A variety of factors—such as the wide range of topics to be covered, involvement of a broad spectrum of experts specializing in particular aspects of the national risk context, unavailability of data, and use of sometimes complex tools and templates—may distract the attention of the assessors away from the big picture in the country.

As an example, experts in one sectoral assessment may use a more conservative approach and conduct a much deeper, more detailed risk assessment than experts in other sectors. Thus, the risk level of one sector may appear higher than other sectors that conducted more superficial, lower-quality risk assessments. However, this result may not accurately reflect the overall risk profile of the country. For cross-sector comparability of ML/TF risks, a holistic comparative review process at the national level is in order, one that develops standards to ensure consistent results.

The potential bias of experts poses another risk. For example, an expert who represents the tax authority and focuses on value added tax (VAT) fraud investigations may view VAT fraud as the main source of proceeds of crime and money laundering risks in the country, an interpretation which may not necessarily be correct. Another risk that assessors must guard against is relying on anecdotal evidence or events, such as a recent large-scale drug seizure in the country that received wide press coverage and may influence the views of the NRA working group members.

During the NRA project in some jurisdictions, the World Bank project teams observed that excessive analyses of some technical compliance issues dominated the write-up, which knowingly or unknowingly diluted the focus on the substance of risks. At least in some cases, this seemed to be an avoidance behavior driven by the lack of professional security and comfort to discuss real ML/TF threats and vulnerabilities. Considering these challenges, the World Bank has developed some tools that may help assessors maintain a holistic approach in the risk assessment. See box 2 and appendix F.



## BOX 2. Elevator Pitch Exercise and Anonymous Perception Surveys

The World Bank uses two effective tools, the elevator pitch exercise and anonymous perception surveys, during national risk assessments. The elevator pitch asks participants to imagine they are at a big conference for criminal professionals who are seeking to identify ways to launder money that stems from corruption, organized crime, and tax fraud. One participant happens to catch an elevator with one of these money launderers and, in the two-minute ride up, has the chance to make a pitch for why the person in question should launder funds in that particular jurisdiction. This exercise serves as an excellent icebreaker during NRA workshops and helps assessors focus on the big picture in the country without being bogged down by technical details of the NRA template or methodology.

The World Bank also conducts anonymous perception surveys at the beginning of kickoff workshops. Working group members are surveyed anonymously about their perceptions of the proceeds of crimes and money laundering/terrorist financing risks in the country. These surveys include questions on the overall level of ML/TF risks, most prominent predicate crimes in the jurisdiction, riskiest sectors, riskiest counterpart countries, and the main impediments to the effectiveness of the AML/CFT regime. Electronic polling software facilitates the surveys. These surveys serve as an effective warm-up exercise and provide real insights into the risks in the country. At later stages of the NRA, cross-comparison of actual NRA findings and records of these initial perception surveys serve as a useful tool for the review of NRA results. At the early stages of NRAs, countries can consider conducting such anonymous surveys that aim to capture the perceptions, experiences, and views of relevant experts in the public and private sectors on ML/TF risks.

## Invest in Data Collection and Academic Work

One of the topics this study examined is the impact of problems in data and statistics in IO1. According to the analysis of MERs, although these problems are not as prominent as some others, they still seem significant. Among the study jurisdictions, 66 percent were criticized, and ratings of 17 percent were explicitly affected, because of data- and statistics-related reasons. In NRA Survey 1 conducted by the World Bank, in response to the question, “What would you do differently in the next NRA?,” one of the most prominent pieces of advice is improving data and statistics to support future NRAs (appendix G).

In the majority of jurisdictions, including higher-capacity ones, lack of data on the proceeds of crime has been a challenge. Obtaining data on the number of crimes and criminals in various predicate offense categories was easier. In quite a number of jurisdictions, obtaining even these relatively basic data took a long time because of coordination problems between the stakeholders, particularly between the working group and the prosecution or law enforcement authorities, or both. Moreover, almost no jurisdictions had a database to track and collect information on proceeds and other financial aspects of crimes. Possessing little to no information about the proceeds or financial flows related to crimes limits the ability of countries to estimate and understand the total criminal proceeds flowing to and from their jurisdictions.

Assessment of threats requires a good understanding of the money laundering and terrorist financing typologies in the country and, in particular, the techniques, sectors, products, and international corridors used in these crimes. Lack of data significantly reduces the quality of the threat assessment. To support threat assessment, the World Bank NRA Tool, in its threat assessment module, includes an Excel template (module 1.B) to guide national authorities in performing a more granular analysis of money laundering cases and turning the information from cases into data, which can be analyzed, monitored, and used to inform countries about the money laundering patterns and trends during a national risk assessment. This simple Excel template was designed like a registry; it collects key details on each money laundering case during the investigation, prosecution, and more advanced stages. The information can then populate a database. This data collection does not extend to suspicious transaction reports unless they turn into an investigation.

Despite the simple structure of this data collection template, countries were not able to collect the required data properly, increasing the reliance on qualitative information such as anecdotal evidence and expert opinion during the threat assessments. Especially for relatively old cases, going back to the paper or information technology-based records and collecting data on the details of cases was not always easy. This retrospective data collection is a time- and resource-intensive process for the working group.

Widespread data challenges during the NRAs reveal a lack of awareness of the value of data collection and analysis for better understanding the proceeds of crime and illicit financial flows. Data on the proceeds of crime are usually limited and scattered among different agencies. Financial intelligence units rarely have the support of specialists with statistics, econometrics, or data science skills. In cases where FIUs are not yet well established and recognized by other government agencies, the units' access to data is more challenging.

Data collection will always be a necessity for all countries, both for understanding and monitoring ML/TF risks and for analyzing the impact and effectiveness of the AML/CFT regime, which are key in the FATF standards. In addition, continuous development in information technology (IT) to facilitate data collection in all fields and the creation of data sets that can cross-support money laundering risk assessments (including more advanced use of IT by law enforcement, tax, and customs authorities) must be made a priority. Countries should embrace this reality, invest in data collection and data-based analyses, and establish a culture with those values. Although developing a systematic data collection framework requires resources and effort at the early stages, over time, it will facilitate the organic growth of data, conserve resources, and result in more elaborate and robust risk analysis as well as more effective AML/CFT policies and institutions.

Hiring data scientists, economists, and statisticians in FIUs and other AML/CFT agencies or making contractual arrangements to use these skill sets in day-to-day risk-based approach and broader AML/CFT work is becoming more essential with the rapid evolution of information technologies.

Countries should also utilize data and information from outside their boundaries. This may include obtaining data from international organizations and collaboration mechanisms, as well as requesting information and data from counterpart countries through their liaison officers and other authorities. The usefulness and relevance of the data should also be monitored because risks may change over time. Collection of unnecessary data may cause noise and inefficiencies. Therefore, data and data sources should be subject to changes as necessary.

The World Bank has developed a new tool as an investment in the quality of the future risk assessments: the Proceeds of Crime and Illicit Financial Flows Data Collection Tool. The tool is intended to kick-start ongoing and systematic data collection in World Bank client countries and to establish a live database that grows over time. The tool collects the key data

on each money laundering case and other serious crimes with significant proceeds. These useful data and statistics are then readily available during national risk assessments and mutual evaluations. In addition, data that are collected properly can help a country monitor and respond to the changing trends and patterns in proceeds of crimes.

### **The Disconnect between IO1 and Recommendation 33**

In the context of data and statistics, the study also analyzed the relationship between the criticism in IO1 in MERs and the jurisdictions' ratings in FATF Recommendation 33 (R33) on statistics. The Spearman's correlation is approximately  $-0.51$ , which is moderate but not insignificant. In some jurisdictions, data on these two categories seem quite consistent (that is, a jurisdiction with a low R33 rating also receives strong criticism in data/statistics-related issues in IO1, or vice versa). But in some others, there is a discrepancy between these two data points (for example, a jurisdiction with a high R33 rating receives strong criticism related to the availability of relevant data/statistics in IO1). Appendix H lists the jurisdictions with such discrepancies.

Although IO1 effectiveness assessment methodology has a cross-reference to it, R33 is not necessarily drafted in a way to support ML/TF risk assessments (box 3). The current text is a legacy of the previous version of FATF Recommendations (40+9) and was not revised after the introduction of a mandatory risk-based approach in 2012. As an example, it does not contain an explicit requirement to collect data and statistics on value and monetary amounts in money laundering or terrorist financing cases, especially when there is nothing seized or confiscated. Also, it does not have any reference to ML/TF risks and does not require data collection on sectors and services abused in ML/TF cases.

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### **BOX 3. FATF R33 on Statistics**

Countries should maintain comprehensive statistics on matters relevant to the effectiveness and efficiency of their anti-money laundering/countering the financing of terrorism (AML/CFT) systems. This should include statistics on the suspicious transactions reports received and disseminated; on money laundering and terrorist financing investigations, prosecutions, and convictions; on property frozen, seized, and confiscated; and on mutual legal assistance or other international requests for cooperation.

The current focus of R33 is on monitoring the effectiveness of some preventive and suppressive measures; the recommendation sets a relatively low threshold that does not necessarily support ML/TF risk assessments. The same limitation may affect the quality of the strategic analysis that needs to be done by FIUs on a regular basis. Therefore, some improvements in R33 or a possible interpretative note on the recommendation explaining what is meant by “comprehensive” could make the recommendation more meaningful and help build the capacity to collect better data to support ML/TF risk assessments.

### **Leveraging Academic Work for Better Understanding of ML/TF Risks**

World Bank project teams have advised jurisdictions undertaking NRAs to identify and review academic studies that may contain useful information to support their NRAs. Even if their focus is not ML/TF risks, studies on organized crimes, terrorism, proceeds of crimes, the informal economy, illicit financial flows, and so on can contain valuable information that can contribute to the NRA.

Project teams also advised jurisdictions to include academics with relevant expertise in their NRA working groups. Although academics were frequently invited to NRA working groups and key activities, most jurisdictions were not able to involve them in deeper data-based and analytical work in a systematic way. Their function was mostly providing feedback or some insights during working group meetings. The Colombia NRA is an example of successful deeper involvement by academics in the NRA. The country was able to trigger academic interest in the NRA and proactively leveraged academic work in the NRA process, mostly to develop novel approaches to assessment and understanding of risks.

Although not linked to the World Bank’s experience, it is worth noting some good examples of academic work in support of assessment and understanding of ML/TF risks and a risk-based approach. Based on pilot applications for Italy, the Netherlands, and the United Kingdom, a report on Identifying and Assessing the Risk of Money Laundering in Europe (IARM) proposed a quantitative methodology that can be replicated in NRAs and sectoral risk assessments (Savona and Riccardi 2017). Several such studies were done in the Netherlands. In “Estimating Money Laundering Risks: An Application to Business Sectors in the Netherlands,” Joras Ferwerda and Edward R. Kleemans (2019) used IARM methodology to complement national risk assessments. Two other examples from the Netherlands are “The Amounts and the Effects of Money Laundering: Report for the Ministry of Finance” (Unger et al. 2006) and “How to Dodge Drowning in Data? Rule- and Risk-Based Anti-money Laundering Policies Compared” (Unger and Van Waarden

2013). In the United Kingdom, Matt Hopkins and Nikki Shelton (2019) conducted a study on “Identifying Money Laundering Risk in the United Kingdom: Observations from National Risk Assessments and a Proposed Alternative Methodology.” Italian authorities also have been collaborating with academics to develop more scientific and data-based tools to support a risk-based approach to AML/CFT.

In general, however, academic interest in AML/CFT and more broadly on the proceeds of crimes is limited—mainly for two reasons: (a) limited funding for research on the topic, and (b) scarcity of data and limited access to existing data. Triggering steady and increasing academic work in this area is not possible without investment of resources with a medium- and long-term perspective. Investment in independent and scientific research in support of NRAs should be a key consideration in AML/CFT strategies of jurisdictions.

Two annual academic conferences include ML/TF risk in their agendas: the Cambridge International Symposium on Economic Crime and the Central Bank of the Bahamas Annual Conference on Empirical Research on AML and Financial Crime. These two main conferences in this front deserve more attention and support. In this regard, the FATF’s initiative to increase the organization’s engagement with academia, which started with the German presidency and continues under the current Singapore presidency, is an important development.

### **Make the Best Use of Feedback During and After the NRA**

Before finalizing an NRA, countries should have their assessment reviewed by internal or external experts and should incorporate the feedback. World Bank project teams have reviewed jurisdictions’ draft reports in almost all NRA projects and provided comments to the NRA working groups. Common issues detected by the World Bank teams and reported back to the jurisdictions were as follows:

- Misinterpretation of the statistics on predicate crimes
- Negligence of the international context and too much focus on domestic crimes
- Lack of justification in ratings and disconnect between narrative and ratings
- Lengthy reports loaded with technical-compliance information
- Unorganized report structure
- Defensive and overly optimistic assessments
- Disconnect between the evidence, reasons, results, and proposed mitigating measures
- Internal inconsistencies within the risk assessment
- Lack of harmonization among different chapters
- Overlooking the threat (for sectors, products, and so on)
- Inconsistencies with open information

- Lack of clear conclusions and recommendations that can guide a risk-based approach
- Reliance on ill-designed questionnaires
- Confusion about and wrong use of basic concepts, such as risk, threat, and vulnerability
- Weak analysis of causal relationships (despite the structure of the NRA Tool, which has a specific focus on this aspect)
- Top-down interventions at the final stages

When providing comments, the World Bank project teams also highlighted and commended the strengths of the risk assessments. Indeed, most of the time, criticism was presented after or within a discussion of the strengths, to avoid discouraging the working groups. However, this approach might have misled some jurisdictions and shadowed the criticism. The World Bank's comments were advisory in nature and not binding, and jurisdictions did not always accept or incorporate the comments and were usually reluctant to make substantial changes in their reports.

Therefore, for the review to practically benefit a country, and to prepare it for the mutual evaluation (although this should not be the primary objective), reviewers should not hesitate to offer constructive criticism, conduct the review using a conservative approach, and communicate the deficiencies and problems in the risk assessments in a direct manner.

Ideally, multiple reviewers having different perspectives should review the NRA. To better judge the clarity of the risk assessment for a broader audience, some reviewers should have relatively deep technical knowledge (for example, experts who have broad experience in national risk assessment, mutual evaluation, or both), and some should have less technical backgrounds.

Obtaining feedback after the NRA is complete is no less important. Examination of MERs reveals that low comprehension of ML/TF risks and confusion in applying risk-based approaches by nonbanking financial institutions and DNFBPs is a nearly universal issue. As such, a clear articulation of the ML/TF risks to these sectors and getting their feedback on the usefulness of the NRA is essential for augmenting their contribution to the combat against ML and TF.

In addition, it is imperative to collect feedback about the NRA from the private sector, not only to understand the effectiveness of its communication, but also to assess its utility in the internal risk assessments and risk mitigation measures of the reporting entities. Though the task may not be effortless, carrying out post-NRA impact analysis can be an advantageous exercise. Authorities can monitor

the transformation in compliance behavior, the number and quality of suspicious transaction reports, and other regulatory filings as a result of the communication of the national risk assessment. The quality of the institutional risk assessments and their correlation and consistency with the NRA can also be a reliable indicator of the practicality and success of the NRA.

Countries should contemplate devising questionnaires to garner feedback from private sector institutions. Such questionnaires may also be executed in a face-to-face, anonymous manner in public/private syndication workshops or forums. The feedback from these assessments should be used to enhance the caliber of the NRA and its communication to stakeholders.

## Recommendations for a Real Transition to Risk-Based Approach

### Find Innovative and Country-Specific Solutions to Turn NRA Results into Risk-Based Policies, Strategies, and Actions

As the analysis of MERs shows, the most common challenges in IO1 are the lack of risk-based policies and strategies and the disconnect between the risk assessment results and the AML/CFT regime. Logically, a risk assessment is expected to lead to improvements and risk-based calibrations in countries' AML/CFT strategies and policies. A risk assessment that does not yield risk-based actions and policies and ultimately does not contribute to the effectiveness of the AML/CFT regime is a waste of resources. Quite often, jurisdictions face challenges in converting their risk assessments into policies and actions. The study team believes that the FATF's guidance in this area is inadequate. More guidance and additional specific success stories from countries that used the risk assessments to improve and even reform their AML/CFT systems would encourage other countries to take this critical, practical step.

Another important aspect of the risk assessments and risk-based AML/CFT controls concerns high-risk jurisdictions. A good risk assessment should give authorities and the private sector some insight into high-risk jurisdictions and the high-risk financial corridors from and to the home jurisdiction, so that authorities and institutions can establish enhanced controls on transactions with these jurisdictions. However, creating a list of high-risk jurisdictions is a sensitive undertaking that some authorities are reluctant to do. In the AML/CFT regimes of many jurisdictions and institutions, "high-risk" refers solely to the jurisdictions gray listed or blacklisted by the FATF and does not refer to the specific context and risks of a country and its partner jurisdictions.

The label of Recommendation 19 (R19) may contribute to this confusion, giving the impression that only the jurisdictions listed by the FATF are high risk and should be subject to enhanced controls (see box 4). However, risk assessments of jurisdictions should include insights regarding jurisdictions that may not appear among the black- and gray-listed jurisdictions but are high risk in country context.

Countries also should bear in mind that the RBA involves understanding not only high risks, but also medium and low risks, and that countries should develop policies and actions that proportionately correspond to all risk levels.

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#### **BOX 4. FATF R19 Higher-Risk Countries**

Financial institutions should be required to apply enhanced due diligence measures to business relationships and transactions with natural and legal persons and financial institutions from countries that this is called for by the FATF. The type of enhanced due diligence measures applied should be effective and proportionate to the risks.

Countries should be able to apply appropriate countermeasures when called upon to do so by the FATF. Countries should also be able to apply countermeasures independently of any call by the FATF to do so. Such countermeasures should be effective and proportionate to the risks.

In conducting risk assessments, consideration also should be given to the interaction between a country's formal and informal economies, as well as the overall effectiveness of the AML/CFT regime. If a country's AML/CFT policies fuel the informal economy and create unintended consequences—such as financial exclusion and de-risking of certain clients and client groups—such policies, even though they appear strong on paper, may increase risks and reduce the effectiveness of the system. Therefore, it is crucial for any country to use exemptions and simplifications appropriately in low-risk areas, so that some of these valuable resources can be reallocated to high-risk areas, thus contributing to the overall effectiveness of the system. Unfortunately, not all countries fully understand and leverage the positive impact of exemptions and simplifications on the AML/CFT regime's overall effectiveness; higher-capacity countries and supervisory authorities take better advantage of these mechanisms (Celik 2021).

The World Bank has developed guidelines to help countries identify the jurisdictions that should be included in a cross-

border threat assessment (see box 5). However, in practice in their NRA reports, countries generally avoid naming certain countries or corridors as high-risk. Even if this information is not published, countries should conduct this analysis and make it available to AML/CFT competent authorities.

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#### **BOX 5. Suggested Steps to Determine Jurisdictions to Be Included in Cross-Border Threat Analysis**

**STEP 1:** Start with the jurisdictions that were identified during the general discussion and brainstorming session on the first day of the workshop.

**STEP 2:** Analyze the ML convictions and identify the top 10 jurisdictions (or as many as relevant) that appear in these cases. Compare this list with your list in Step 1 and expand the list to include these 10 jurisdictions.

**STEP 3:** Analyze the data of outgoing mutual legal assistance requests. Identify the top 10 jurisdictions (or as many as relevant) and compare them with your list in Step 2. If there are new jurisdictions that are not already on your list, expand the list to include them.

**STEP 4:** Analyze the data of incoming mutual legal assistance requests. Identify the top 10 jurisdictions (or as many as relevant) and compare them with the list in Step 3. Repeat as above.

**STEP 5:** If data on financial inflows (as set out in submodule 1.C) are available, identify the top five jurisdictions (or as many as relevant) and repeat as above.

**STEP 6:** If data on the financial outflows (as set out in submodule 1.C) are available, identify the top five jurisdictions (or as many as relevant) and repeat as above.

**STEP 7:** If the home jurisdiction has a significant Trust and Company Service Provision sector, identify the top five origin jurisdictions (or as many as relevant) of the clients. Repeat as above.

*Source: World Bank NRA Tool, Guidance on National Threat Assessment Module.*

One area in which the World Bank has supported countries in implementing a risk-based approach is the development of strategies for carefully choosing between supervision and monitoring regimes on the basis of sectoral risk levels. According to FATF standards, FIs that are subject to core principles (banking, securities, and life insurance) and casinos should be subject to supervision, while the remaining sectors

can be subject to either supervision or monitoring. The FATF has not prescribed a one-size-fits-all definition of the monitoring regime; instead, it provides countries with flexibility in defining and tailoring their monitoring regimes. Using a sectoral risk map, countries can determine which sectors should be subject to supervision and which ones can be subject to monitoring.

In general, countries need further guidance on how to translate risk assessment results into national policies and strategies. While the vulnerability assessment provides better guidance on this matter, translating the threat assessment into risk-based policies and actions is a challenge. For example, in their NRAs, most countries analyzed predicate offenses as sources of ML risk. But the implications of this analysis for national strategies and policies are not necessarily clear.

Another potential area for improvement is developing and updating red-flag indicators for sectors using the risk assessment. Often, red-flag indicators for sectors are not dynamic and not linked to the country's risk assessment.

### **Establish a Culture of Risk-Based Approach**

With the 2012 revisions, the risk-based approach became the backbone of the FATF Recommendations. The initial round of NRAs was the first serious attempt by many countries to make the transition to this risk-based approach; it was also an experiment. Going forward, countries should aim to build a dynamic and continuous risk-based approach culture. In addition to some good practices covered below, feedback loops (explained in the section, "Make the Best Use of Feedback during and after the NRA") should be leveraged to establish this risk-based culture.

R1 requires countries to establish a mechanism to assess and understand risks and apply a risk-based approach. To conduct the risk assessment in an organized way, the World Bank's project teams have advised countries to establish working groups or task teams under the coordination of a leader and secretariat. By nature, these structures were ad hoc, and almost all of them were dismissed after the NRA was completed. The World Bank supported the jurisdictions in developing risk-based action plans at the end of all the NRA projects. But this draft action plan also marked the cutoff of the World Bank projects. The implementation of an action plan is a much longer-term endeavor that often requires official endorsements at political and senior levels and should be carried out by a wide range of stakeholders.

Although this structure worked well for the initial round of NRAs and will be needed in future risk assessments, it comes with two main drawbacks: (a) interruption in turning the assessments into policies and action and (b) loss of

institutional memory.

As discussed in the previous chapter of this report, worldwide, the most important reason for failure in the effectiveness of the risk-based approach (IO1) is deficiencies in developing risk-based national strategies and policies. Although developing risk-based policies requires ownership and involvement of multiple agencies, establishing a mechanism to coordinate the development and implementation of national strategies and policies can be a powerful tool to maintain momentum after the NRA.

Countries need to build their internal capacity and preserve the experience in assessing risks by converting them into policies and actions. This step is more challenging when there is staff turnover among leaders and members of the working groups. In many jurisdictions, updates or future rounds of risk assessments may have to be conducted by a new generation of working group leaders and members. These updates and new assessments should not start from scratch; rather, members should leverage the experiences and information from the past assessments. With this perspective, the World Bank recommends that countries document their NRAs well and retain their records, including working documents, in an organized and accessible format.

Documentation alone, however, is not adequate for the cross-generation transfer of expertise. Countries should embrace the reality that the risk-based approach is the future of the global AML/CFT landscape and consider forming dedicated and permanent national teams or units focusing on the risk-based approach, such as a department in the financial intelligence unit or another competent authority (see box 6). These national teams should be supported with adequate resources, own all the information related to the risk-based approach, including NRAs, and be prepared to do the heavy lifting on policy and strategy development. In addition to these main functions, similar to the FATF's Risks, Trends, and Methodologies Groups, these units can monitor the new risks and trends and inform stakeholders about them.

Establishing a unit or department focused on ML/TF risks will help countries preserve data and build institutional memory. Such units can also mitigate the two drawbacks related to the risk-based approach and ensure the continuity and growth in memory and capacity in risk assessments. Risk assessments and updates will still require the involvement of a broader group of experts from various public and private stakeholders. However, these risk units can constitute the permanent memory. Using experts knowledgeable on NRAs will be more effective than reading a bulky report. Such units should also be supported with adequate human and other resources.



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## **BOX 6. Divisions Focusing on ML/TF Risks**

FATF Recommendation 1 requires countries to establish a mechanism to understand and assess the money laundering/terrorism financing (ML/TF) risks in their jurisdictions but does not prescribe what this mechanism should be. During their first national risk assessments, many countries established ad hoc working groups or task forces to undertake risk assessments. Some others established permanent units to conduct and coordinate ML/TF risk assessments.

For example, Hong Kong SAR, China, has a specific department dedicated to ML/TF risk assessments of the jurisdiction. This risk assessment unit, which reported to Financial Services and the Treasury Bureau, played a pivotal role in the first risk assessment of the jurisdiction in 2017. In the mutual evaluation, the country was praised for having a good understanding of ML/TF risks and rated as substantially effective in Immediate Outcome (IO) 1. On June 1, 2021, together with the Joint Financial Intelligence Unit and Financial Investigation Division, the risk assessment unit joined the new Financial Intelligence and Investigation Bureau. The unit also led the second NRA in 2022.

The United Arab Emirates also has a permanent division that focuses on risks. The country, which consists of seven emirates and has two global financial centers and several free trade zones, established an Executive Office of AML/CFT in 2021 to centrally shape and implement the UAE's National Strategy and Action Plan and coordinate between national entities and with international partners. The Executive Office of AML/CFT is tasked with facilitating the continued development and maintenance of a reliable financial system with high levels of protection against abuse for ML/TF and weapons proliferation and implementing strong regulatory frameworks. It has a permanent Risk and Policies Department that monitors and assesses any risks related to ML/TF, financing illegal organizations, and financing proliferation, and the department coordinates the NRA and development of risk-based national strategies and policies.

Under the scope of this study, we also analyzed the jurisdictions that were commended for good quality and practices in their risk assessments and risk-based approach to AML/CFT in their MERs (see box 7). A characteristic that was highlighted in New Zealand, Spain, and several other jurisdictions is the continuous and dynamic nature of their risk assessment work. Several jurisdictions in this group have organized a series of risk assessments, each focusing on different sectors or

topics. Some of these were done after a core national risk assessment was conducted. Continuous strengthening of the understanding of risks by conducting risk assessments in new areas/emerging risks is a best practice that adds dynamism to the RBA. Appendix I contains some excerpts from the MERs of jurisdictions listed in box 7 and highlights the strengths of the RBA in these jurisdictions.



## BOX 7. Jurisdictions Commended for the Strengths in Their Risk-Based Approach to AML/CFT

Although not an exhaustive list, below are some jurisdictions that are commended for strengths in their risk assessments. Please note that some jurisdictions that were rated relatively lowly nonetheless earned positive remarks on their risk assessments.

Antigua and Barbuda	Greece	Italy	San Marino
Aruba	Hong Kong SAR, China	Republic of Korea	Saudi Arabia
Bermuda	Indonesia	Moldova	Spain
Canada	Ireland	New Zealand	United Kingdom
Cyprus	Isle of Man	Philippines	
Ghana	Israel	Russian Federation	

Some common characteristics that received positive feedback from the assessors are as follows:

- The political commitment to assess and understand the risks
- Good understanding of risks based on dependable evidence and sound judgment
- Reliance on diverse information sources that are both qualitative and quantitative
- The continuous/dynamic nature of the risk assessments
- Good organization and strong collaboration among government agencies
- Strong public-private collaboration during the risk assessments
- Strong collaboration with academia
- Identification of data/information problems and plans for addressing them
- Risk-based strategies based on the risk assessments

## Be Flexible and Efficient in Reporting and Dissemination

When working with countries, task teams from the World Bank often have advised the countries to write an NRA report. In response to countries' requests, the World Bank developed a standard report outline. However, it soon became apparent that writing the NRA report was an overwhelming process for some countries and could distract them from the main task, which is informing the risk-based approaches of public and private stakeholders.

Therefore, countries may consider using alternative methods of communicating the initial risk assessment results to relevant stakeholders. These alternatives could include sector-specific briefs, presentations, meetings, workshops, and other forms of dissemination. The information also could be shared with stakeholders on a secure website, where users must identify themselves before accessing the information.

Any report, write-up, presentation, or other output of the NRA should consider the issue of the “the forest versus the trees.” These documents should always present the big picture in a professional, clear, and concise manner and effectively convey the main risk messages and priorities to the intended audience. They should not contain any unnecessary technical details and jargon that may be difficult for end users of the information to comprehend. For instance, rather than presenting numerous and confusing details, a presentation targeting a certain type of financial institution should include insights about the typologies where the sector was abused, identifying red-flag indicators for the sector as well as high-risk lines and transactions the sector should focus on.

Ideally, risk assessment reports, briefs, or presentations should be tailored to target audience. For example, a presentation that is addressed to supervisory authorities or national policy makers may not be fully relevant and useful for the private sector institutions, which need the outputs risk assessment as an input to their institutional risk assessments and risk-based approaches.

# 4 Other Key Considerations Related to the Risk-Based Approach

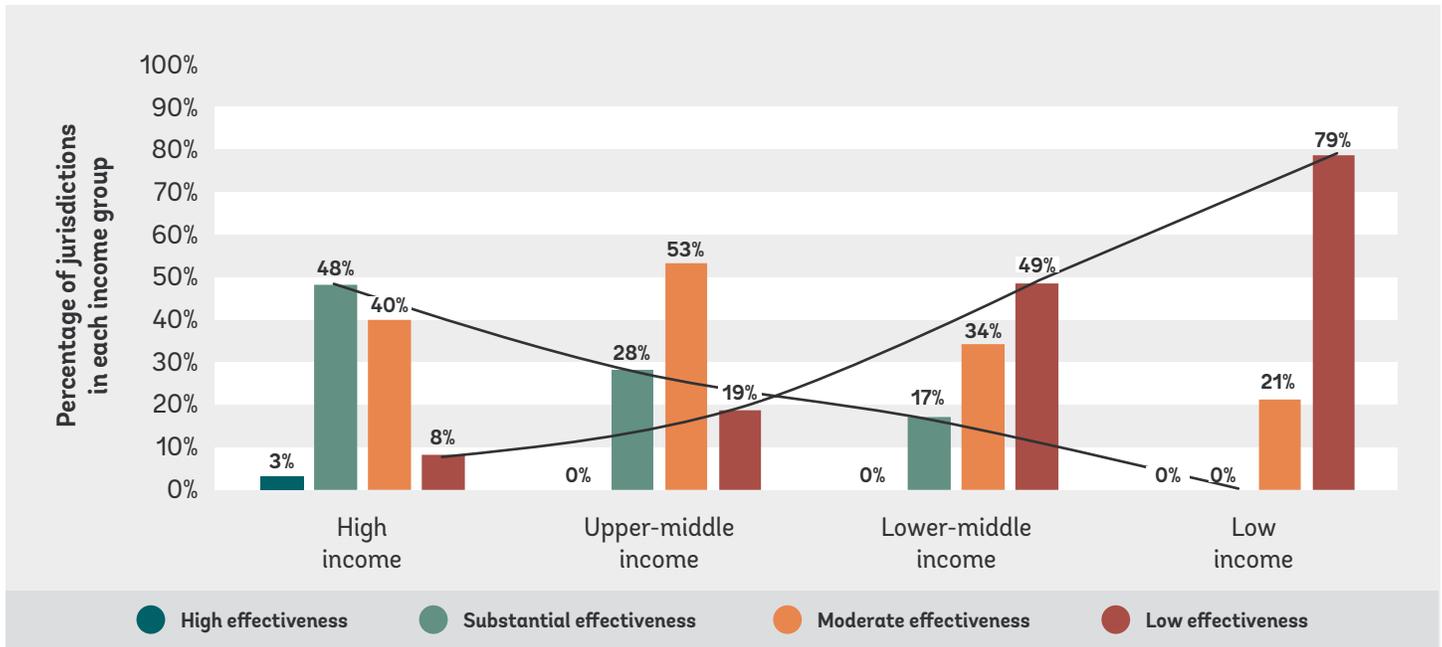
## The Impact of Capacity Constraints

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During this research, the study team also examined the performance of countries in IO1 and the broader risk-based approach, including IO4 and IO5, in countries' income groups. The team used the four country income categories defined by the World Bank—namely, high income, upper-middle income, lower-middle income, and low income.

Figure 6 shows how the IO1 ratings are distributed in each income group. In IO1, an obvious relationship exists between the income levels of countries and the percentage of countries rated as having substantial effectiveness and low effectiveness. The distribution of moderate effectiveness ratings is more even across all income groups. In R1, the relationship between countries' income levels and their performance seems to be limited and shows a clear pattern only in the noncompliant category.

**FIGURE 6. Distribution of IO1 Ratings, by Income Group**



Source: Study data based on mutual evaluation reports.

A statistically strongly significant Spearman’s correlation (0.56) was found between gross domestic (GDP) per capita and IO1 scores. In this analysis, GDP per capita was used as a basic indicator of the development level of each jurisdiction. Although caution should be used in interpreting the correlation analysis, the results may imply that a higher income level allows a jurisdiction to allocate more resources to RBA, or higher income affects the quality of governance in a jurisdiction, which eventually affects the quality of RBA. Also, both may have an impact on the quality of RBA together, combined with other factors. Indeed, the survey results can

be read as a confirmation of the widespread impact of human and other resource constraints on NRAs. Figure 7 indicates that resource constraints are the most important impediment during NRAs.

To further examine the possible fundamental challenges, the study team also ran a Spearman’s correlation analysis between the quality of RBA in the jurisdictions and some of the World Bank’s Governance Indicators as of 2021. Table 2 summarizes the results of this analysis.

**TABLE 2. Spearman’s Correlation Coefficients between World Bank Governance Indicators and Indicators of Country Performance in the Risk-Based Approach**

	GDP per capita	Government effectiveness	Regulatory quality
Ratings of Immediate Outcome 1	0.56	0.51	0.51
Ratings of R1	0.35	0.28	0.31

Source: Study data based on mutual evaluation reports and World Bank Worldwide Governance Indicators: <https://databank.worldbank.org/source/worldwide-governance-indicators>.

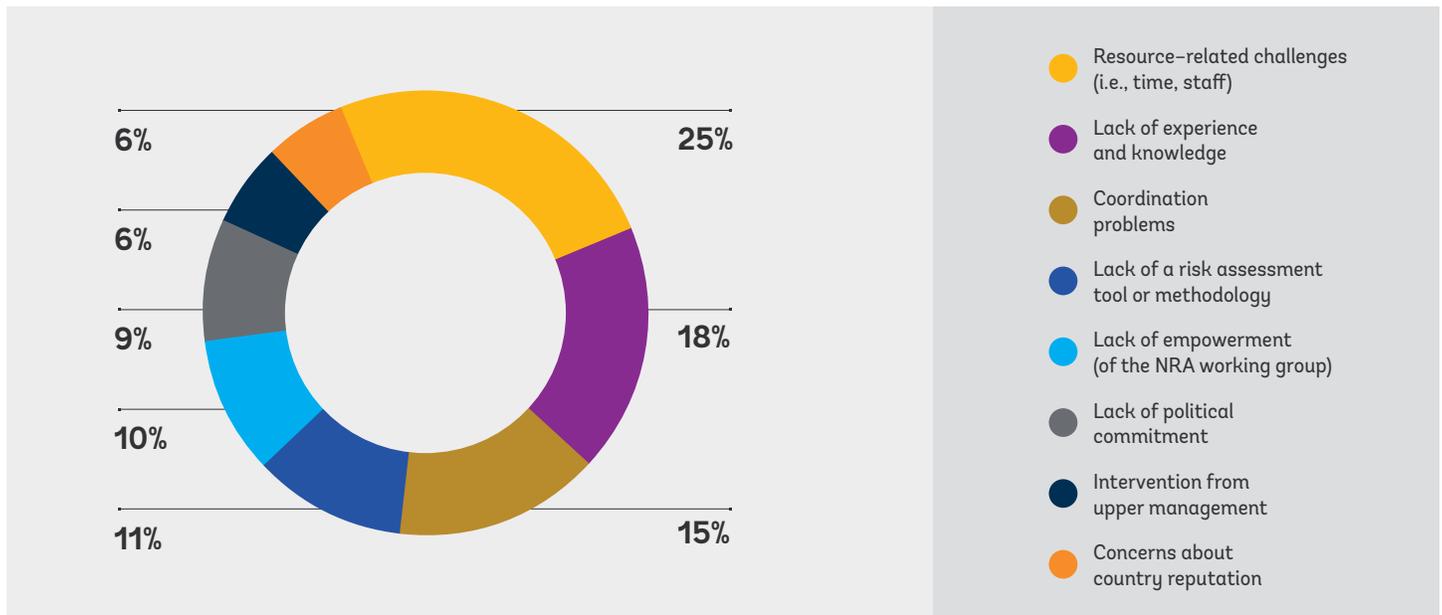
As seen in table 2, compared to GDP per capita, government effectiveness and regulatory quality in countries exhibit slightly weak correlations with indicators of country performance in the risk-based approach. The strongest correlation is between IO1 ratings and GDP per capita. While most correlations are of moderate size, they are all statistically (and monotonically) significant, meaning the direction of the relationships consistently exists in the direction indicated and is not by coincidence.

In NRA Survey 2, a key question was about impediments to the quality of ML/TF risk assessments. Using a given list of options, participants were asked to identify the three most important challenges in their jurisdictions that could hamper

the quality of the next NRA, if not addressed properly (figure 7). The biggest challenge identified relates to the allocation of adequate resources, including human resources, for assessing the risks. Lack of knowledge and experience was also noted as a challenge, confirming the need for continuing support for NRAs. Additionally, possible coordination problems were concerning for many participants. Survey 1 included a similar, open-ended question: Participants were asked what they would do differently in a new NRA given their experience and observations in the country’s first NRA. Many participants recommended improvements in public-public and public-private cooperation, and in collection of better-quality data and information. A list of responses appears in appendix G.

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**FIGURE 7. Most Significant Impediments to the Quality of ML/TF National Risk Assessments, as a Percentage of All Responses**



Source: Study data based on mutual evaluation reports.  
 Note: ML = money laundering; TF = terrorist financing; NRA = National ML/TF Risk Assessment

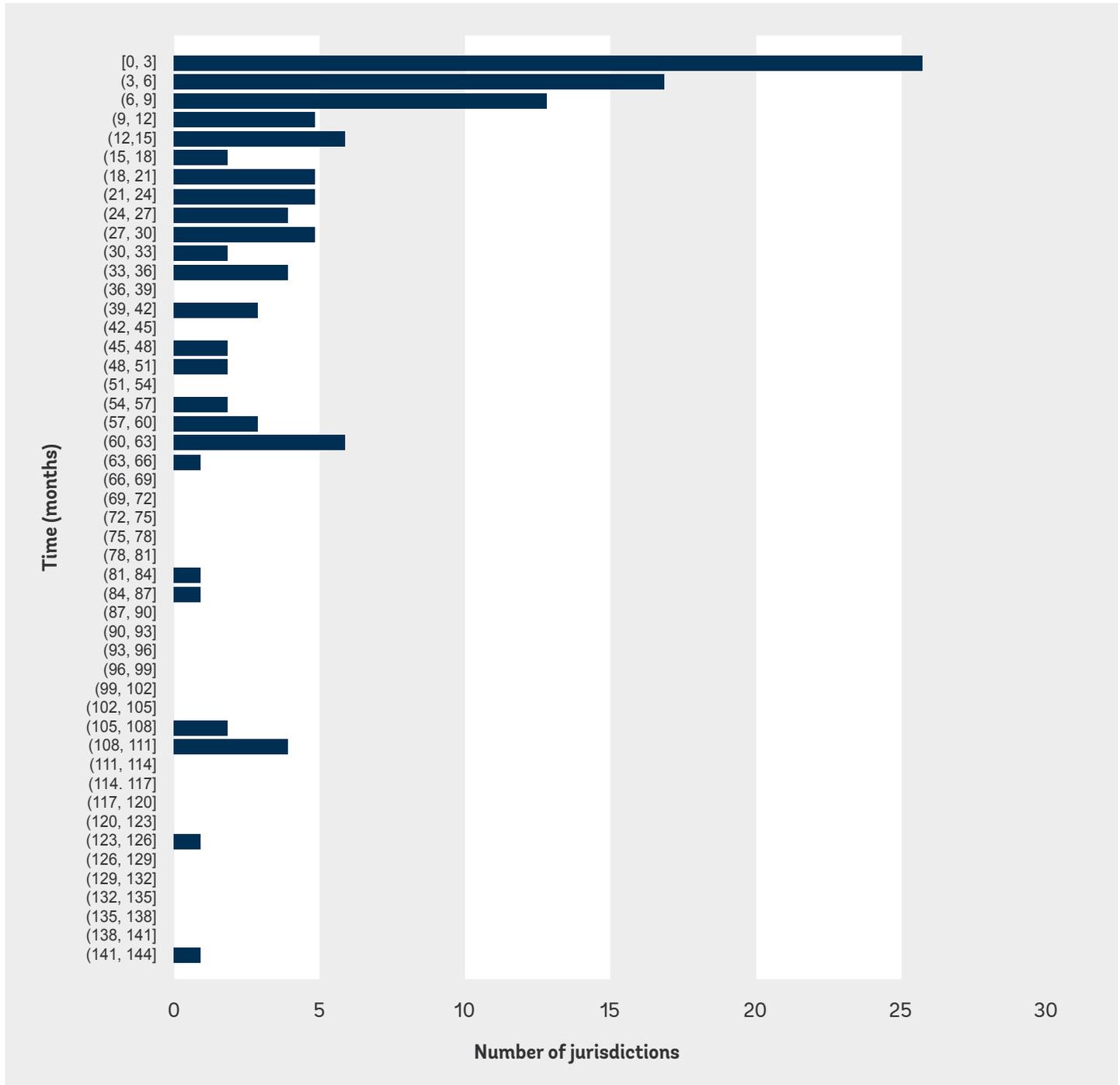
# Last-Minute National Risk Assessments

Using the information in MERs, the study also analyzed the timing of NRAs. The analysis shows a widespread tendency to complete the assessment within the last year before the mutual evaluation onsite visit, which marks the cutoff date for progress to be included in the mutual evaluation. Among

the study jurisdictions, 26 completed their risk assessment within three months or less of the onsite visit (figure 8). Approximately 20 in this group finished in the last month before the onsite visit.

> > >

**FIGURE 8. Time between NRA Completion and Mutual Evaluation Team’s Onsite Visit (Months)**



Source: Study data based on mutual evaluation reports.  
 Note: ML = money laundering; TF = terrorist financing; NRA = National ML/TF Risk Assessment

Intuitively, the time between the NRA and the onsite visit of the mutual evaluation team can be expected to affect the rating of IO1, or at least cause problems in building risk-based national policies or strategies in a timely manner. Positive and significant Spearman's correlation confirms this observation.<sup>8</sup> Indeed, among 26 jurisdictions where this time span is three months or less (see figure 8), 17 received strong criticism about deficiencies in risk-based national policies and strategies—as expected.<sup>9</sup> However, many other jurisdictions completed their NRAs in a timelier manner and had enough time to work on developing risk-based national policies, but they failed to do so. Given these observations, it is possible to defend the notion that the time between NRA completion and mutual evaluation onsite visits matters, but apparently there are also other common problems underlying the lack of or deficiencies in risk-based national policies. Further guidance to countries on how to turn risk assessment results into risk-based policies and strategies, as well as relevant best practices, would help address this outstanding problem. The analysis shows that 16 percent of jurisdictions were not able to complete and submit any NRA to the mutual evaluation team, 25 percent completed two or more NRAs, and most met the mutual evaluation with one NRA completed before the onsite visit. Indeed, the figure for the countries that have completed multiple NRAs is encouraging and shows that quite a number of countries make the effort to keep their understanding of risks up-to-date. The countries that have completed multiple NRAs tend to update their NRAs in two- to four-year intervals (appendix E, figure E.5.) Excluding some very early NRAs from before 2012, the average NRA update interval is 3.5 years. This figure is just a snapshot of what is happening on the ground. There is not a “one-size-fits-all” interval for NRA updates. The timing depends on the country context and how fast the economy, crime profile, and risks in the country change. The monitoring of country context and emerging risks should be done in real time. But in the absence of unexpected, drastic changes in a country's profile, three to five years would seem to be a reasonable time frame to update the risk assessments.

## How Much Does the Risk Assessment Methodology Matter?

Methodology-related issues do not appear to significantly affect IO1 ratings directly. Assessors generally focus on the reasonableness of NRA results and rarely examine the methodologies and tools used for national risk assessments. As shown in figure 3, methodological issues are rarely seen as substantial problems that affect countries' IO1 ratings. This

finding is also supported by figure E.3 in appendix E, where Spearman's correlation between methodological issues and IO1 ratings is statistically negligible and insignificant.

Indeed, this result aligns with the FATF's assessment methodology, which states, “Assessors are not expected to conduct an in-depth review of or assess the country's assessment(s) of risks. Assessors, based on their views of the reasonableness of the assessment(s) of risks, should focus on how well the competent authorities use their understanding of the risks in practice to inform policy development and actions to mitigate the risks.”

The same finding also applies to the mutual evaluations of jurisdictions that used the World Bank's NRA Tool. Among 146 study jurisdictions, 67 used the NRA Tool. In the MERs of these 67, criticism of the NRA Tool was rare. For example, Monaco's MER criticizes the tool (indirectly) for not having the notion of consequences. The reports for Kenya and Estonia contain some criticism, mainly on the pilot versions of the tool. These issues were addressed in the final version of the NRA Tool. Slovenia's MER states that country authorities “strictly followed the provided global tool, even where they sometimes found that this did not allow them to sufficiently take the country's specificities into consideration.” However, this statement relates more to limiting the scope of the national risk assessment with the NRA Tool, even though the country-specific risks required additional analyses. A similar concern was voiced in Croatia's MER. But limited criticism of the NRA Tool and other methodologies used by countries should be read with caution, since the FATF methodology does not expect that criticism from the assessors, as explained previously. The question of whether this issue should be subject to further scrutiny, as proposed by Ferwerda and Reuter (2022), is a separate question beyond the scope of this study, and it deserves further analysis and discussion.

A Spearman's correlation analysis between IO1 ratings and use of the NRA Tool also does not show any meaningful, large correlation worthy of practical consideration. IO1 ratings seem more related to fundamental factors in assessed jurisdictions, discussed later in the report.

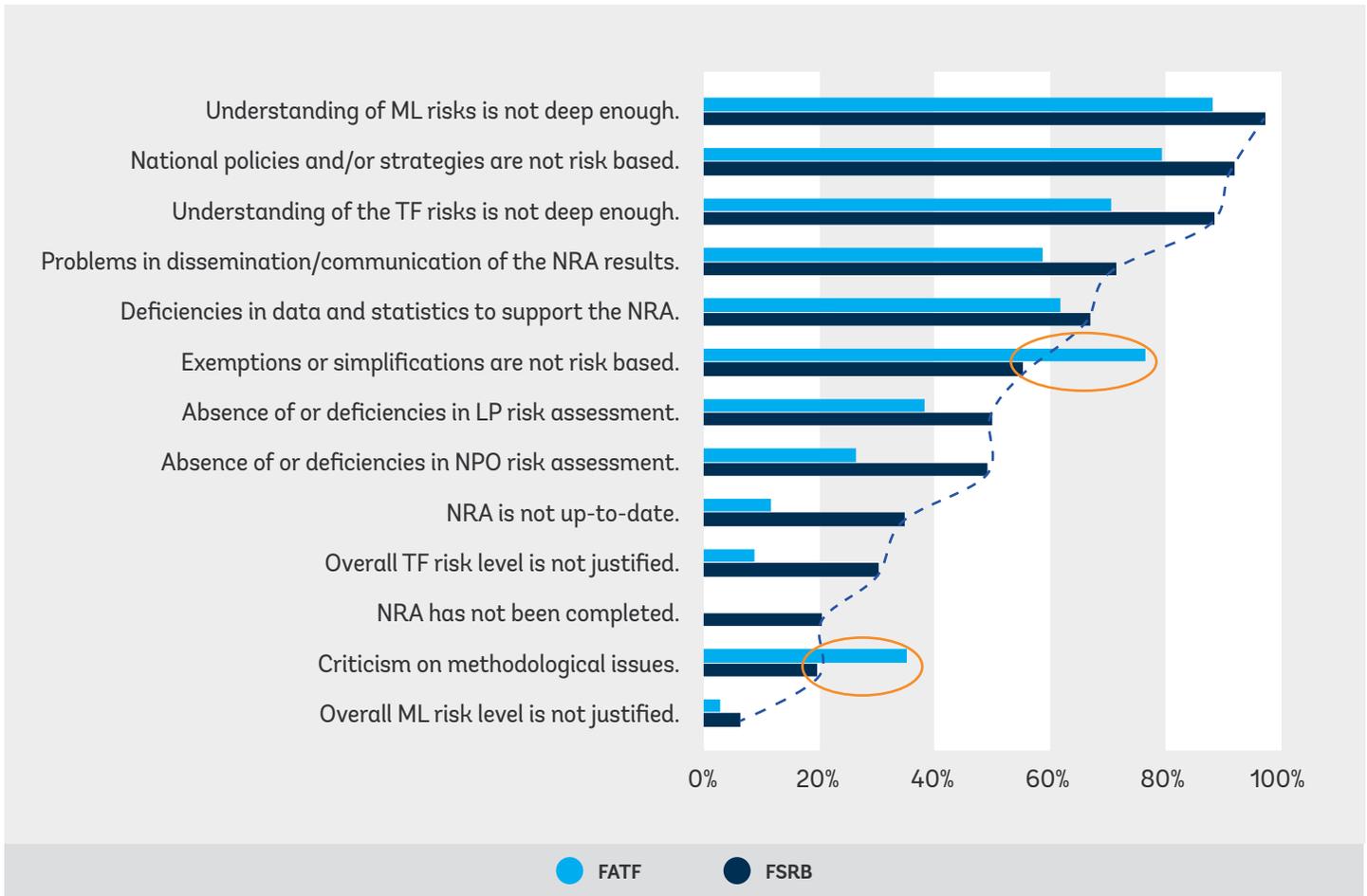
Figure 9 compares FATF and FSRB jurisdictions on the basis of the frequency of criticism in various categories. As expected, in general, FATF jurisdictions received less criticism than FSRB jurisdictions in most categories.<sup>10</sup> One of the two categories in which FATF jurisdictions were criticized more frequently than FSRB jurisdictions is methodological issues.

8 Spearman's correlation shows positive and significant association between the two (rho value = 0.27 and p = 0.0024) at the 95 percent significance level. In other words, as the time between the first NRA and the onsite visit of the team increases, evaluation consistently improves.

9 Moderate negative Spearman's correlation attests to this finding (rho value = -0.25 and p-value = 0.005). As the months between the first NRA and the onsite visit of the team decrease, criticism about deficiencies increases.

10 A statistical t-test also suggests a significant difference between the levels of criticism both FATF and non-FATF receive. Generally, FATF countries receive a low level of criticism compared to non-FATFs.

**FIGURE 9. Frequency of Criticisms of FATF and FSRB Jurisdictions**



Source: Study data based on mutual evaluation reports.  
Note: Percentages in 34 FATF and 112 FSRB jurisdictions. FATF = Financial Action Task Force; FSRB = FATF-style regional bodies; ML = money laundering; TF = terrorist financing; LP = legal person; NPO = nonprofit organization; NRA = National ML/TF Risk Assessment. In this analysis, the jurisdictions that are members of both the FATF and an FSRB are counted only in FATF.

The second outlier concerns exemptions and simplifications that are not risk-based. This finding should be considered along with those of the World Bank report on FATF Recommendations and financial inclusion (Celik 2021). The report shows that FATF member jurisdictions use exemptions and simplifications more frequently than FSRB jurisdictions do. Developing countries, which are mostly FSRB members,

are especially reluctant to use exemptions and simplifications because of their lower capacity to tailor the AML/CFT regulations or their concerns about the mutual evaluation. Therefore, the lower level of criticism of FSRBs in this category reflects the lower use of exemptions and simplifications among FSRB jurisdictions.



# A Way Forward for the World Bank and Other International Stakeholders

## A Way Forward for the World Bank's Capacity-Building Program Related to NRAs

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The World Bank's National Money Laundering/Terrorist Financing Risk Assessment technical assistance program has reached 114 jurisdictions and more than 5,000 experts in these jurisdictions since 2013. We believe this program has played an important role in the Financial Action Task Force (FATF)'s ongoing transition to a risk-based approach to anti-money laundering/countering the financing of terrorism (AML/CFT). Our analysis could not find any statistically significant relationship between the use of the World Bank's NRA tool and countries' understanding of money laundering and terrorist financing risks. Rather, the quality of the risk assessments seems significantly correlated with the income level or degree of overall government effectiveness in jurisdictions. On the other hand, country-specific experiences of the World Bank project leaders show that in many low-capacity jurisdictions, the World Bank's NRA support was the first step toward the risk-based approach and has helped significantly in raising awareness and building the capacity of a broader group of stakeholder agencies, such as supervisors of nonbank sectors, prosecution, law enforcement, customs, and tax authorities. Also, feedback surveys done during these projects showed significant improvements in interagency cooperation and collaboration between the public and private sectors in AML/CFT. However, depending on the starting position of the jurisdiction at the beginning of the NRA, such improvements are not always enough to shift the effectiveness ratings up.

The World Bank's support was focused on the assessment of risks and did not include comprehensive support for risk-based strategies and policies, and for implementation of risk-based approaches, all of which are essential for effectiveness. Going forward, the World Bank management may wish to shift the focus of NRA-related technical assistance projects to more specific areas highlighted in this analysis rather than supporting second or later rounds of national risk assessments from beginning to end, which will have limited value added. **The new focus could be on selective but more in-depth global and country engagements, such as**

- Support for the development and implantation of risk-based national AML/CFT policies and strategies and implementation of these;
- Better data collection and analysis on the proceeds of crimes and academic research that can support understanding of the proceeds of crimes and their movement at the global level and in client countries;
- Implementation of risk-based approaches to legal persons (LPs), company and trust service providers, and other designated non-financial businesses and professions (DNFBPs), and new technologies, including virtual assets;
- Implementation of a risk-based approach in support of financial inclusion, including digital financial products and merchant payments.

## Recommendations for International Organizations, Technical Assistance Providers, and Donors

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This study shows that despite the progress in risk-based approach and raising awareness, understanding of ML/TF risks is still shallow in many jurisdictions, and implementation of risk-based approaches at the national level and especially in nonbank sectors is a widespread challenge. The following paragraphs contain some suggestions for international organizations, technical assistance providers, and donors to help advance the understanding of ML/TF risks and make real progress in risk-based approaches globally.

- Supporting and funding academic work on criminal proceeds and financial flows, ML, and TF risks can cross-support the understanding of risks by jurisdictions themselves and by the assessors during the mutual evaluations, as well as at the global level. In this regard, the FATF's recent initiative to better collaborate with academia is an encouraging development. **Donors and international organizations should further support academic work on the proceeds of crimes and criminal financial flows and should invest in independent data collection at the international level.**
- The FATF and other international organizations may consider improving the guidance and facilitating the sharing of best practices in the areas the jurisdictions are struggling with most, notably in deepening the understanding of ML and TF risks; developing risk-based policies, strategies, and actions; and effective communication of risks to relevant stakeholders. Technical assistance providers and donors may intensify their support in these areas.

The study also identified some specific points related to FATF Recommendations and assessment methodology, which may benefit from further clarifications and guidance:

- We found discrepancies in the treatment of LP risk assessments by evaluators during the mutual evaluations. It may not be fully clear to the assessors whether deficiencies in LP risk assessment should be considered solely in Immediate Outcome (IO)1 or in both IO1 and IO5. **More guidance for assessors could help reduce potential problems, such as double-counting of the same deficiencies in different parts of the assessments.**
- The current focus of FATF Recommendation 33 on statistics is on monitoring the effectiveness of some preventive and suppressive measures, and it sets a relatively low threshold that does not necessarily support ML/TF risk assessments. The same limitation may affect the quality of the strategic analysis that needs to be done by the financial intelligence units on a regular basis. **Some improvements in R33 or a possible interpretative note on the recommendation that explains what is meant by “comprehensive” could make the recommendation more meaningful and encourage countries to collect better data to support ML/TF risk assessments.**
- In the AML/CFT regimes of many jurisdictions and institutions, high-risk jurisdictions refer solely to the jurisdictions gray-listed or black-listed by the FATF and do not refer to the specific context and risks of a country and its partner jurisdictions. The label of Recommendation 19 may also contribute to this confusion, giving the impression that only the jurisdictions listed by the FATF are high risk and should be subject to enhanced controls. **The FATF may wish to reconsider the title of Recommendation 19 and provide further guidance to governments about identifying high-risk jurisdictions in their country context.**

## Other Research Topics That Emerged during the Study and Its Review

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During the study and drawing from the comments of peer reviewers, the project team identified some other topics that are not under the scope of this report but may deserve further research:

- Using mutual evaluation reports (MERs), this study also attempted to identify the main sources of the proceeds of crimes from a global perspective. Similarly, the sectors indicated as high risk in MERs were included in data

collection. Some findings were shared with the peer reviewers and received constructive comments that can help deepen and refine the findings. Considering the importance of the topic and its divergence from the main objective of this report, that analysis will be released as a standalone document or blog, as appropriate. The analysis can be expanded to TF in addition to ML.

- Although it was analyzed and included in this report to a certain extent, an in-depth effectiveness assessment of the World Bank's NRA Toolkit and technical assistance activities was not among the primary objectives of this report. Such a standalone effectiveness and impact analysis could be considered by the World Bank management.
- Several peer reviewers voiced the need for sharing good practices of risk-based strategies and policies and of the implementation of risk-based approaches. The report itself recommends some principles in this regard but also highlights the need for further exploring the proven risk-based approaches and best practices.
- The study attempted some correlation and regression analyses to explore the factors (independent variables) that may influence countries' IO1 ratings. This analysis could be subject to further research by expanding the scope to other immediate outcomes. Such a study could also examine the consistency between the mutual evaluations conducted by the FATF and FATF-style regional bodies (FSRBs).
- This study draws lessons from the World Bank's field experiences and partially from mutual evaluation reports,

but not necessarily from the country NRA reports themselves. NRA reports that have been obtained by the World Bank during the NRA projects are confidential documents unless published by countries. A future study that analyses publicly available NRA reports and unpublished reports—with the consent of home jurisdictions—could provide further insights into problems or promising practices in NRAs.

- Considering the limitations of the MER process, a deep analysis of the NRAs themselves and the risk-based approach (RBA) adopted by the countries could be conducted with a more holistic approach. In this kind of study, the conceptualization of risk, how well the risk is studied in the NRAs, and the soundness and consistency of the methodologies used could also be examined since how the risk is handled determines the level of risk—in other words, the inherent/residual risk and this concept of risk also affect the risk mitigation policies and the overall effectiveness of the AML/CFT regime. This research can be expanded to a comparative impact analysis of different risk assessment approaches.
- Are revisions and further clarification of concepts in FATF NRA guidance needed? What can be some practical options in this regard that would add value without distracting and overwhelming the countries? Should mutual evaluations pay attention to assessment methodologies? If yes, to what extent?

# Appendixes

## Appendix A. Financial Action Task Force Recommendation 1

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### Recommendation 1 on Assessing Risks and Applying a Risk-Based Approach

Countries should identify, assess, and understand the money laundering and terrorist financing risks for the country and should take action, including designating an authority or mechanism to coordinate actions to assess risks and apply resources aimed at ensuring the risks are mitigated effectively. Based on that assessment, countries should apply a risk-based approach (RBA) to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified. This approach should be an essential foundation to efficient allocation of resources across the Anti-Money Laundering and countering the financing of terrorism (AML/CFT) regime and the implementation of risk-based measures throughout the FATF Recommendations. Where countries identify higher risks, they should ensure that their AML/CFT regime adequately addresses such risks. Where countries identify lower risks, they may decide to allow simplified measures for some of the FATF Recommendations under certain conditions.

Countries should also identify, assess, and understand the proliferation financing risks for the country. In the context of Recommendation 1, “proliferation financing risk” refers strictly and only to the potential breach, non-implementation or evasion of the targeted financial sanctions obligations referred to in Recommendation 7. Countries should take commensurate action aimed at ensuring that these risks are mitigated effectively, including designating an authority or mechanism to coordinate actions to assess risks, and allocate resources efficiently for this purpose. Where countries identify higher risks, they should ensure that they adequately address such risks. Where countries identify lower risks, they should ensure that the measures applied are commensurate with the level of proliferation financing risk, while still ensuring full implementation of the targeted financial sanctions as required in Recommendation 7.

Countries should require financial institutions and designated non-financial businesses and professions (DNFBPs) to identify, assess and take effective action to mitigate their money laundering, terrorist financing and proliferation financing risks.

*Source: International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation, The FATF Recommendations (updated March 2022).*

# Appendix B. Financial Action Task Force Immediate Outcome 1 Effectiveness Assessment Criteria

> > >

**FIGURE B.1. FATF High-Level Objective, Intermediate Outcomes, and Immediate Outcomes for Effectiveness**



Source: FATF 2021.

Note: DNFBPs = designated nonfinancial businesses and professions; VASP = virtual assets service providers; AML = anti-money laundering; CFT = countering the financing of terrorism; NPO = nonprofit organization; UNSCRs = United Nations Security Council Resolutions.

## Characteristics of an effective system

A country properly identifies, assesses, and understands its money laundering and terrorist financing risks, and coordinates domestically to put in place actions to mitigate these risks. This includes the involvement of competent authorities and other relevant authorities; using a wide range of reliable information sources; using the assessment(s) of risks as a basis for developing and prioritizing AML/CFT policies and activities; and communicating and implementing those policies and activities in a coordinated way across appropriate channels. The relevant competent authorities also cooperate and coordinate policies and activities to combat the financing of proliferation. Over time, this results in substantial mitigation of money laundering and terrorist financing risks. This outcome relates primarily to Recommendations 1, 2, 33, and 34, and also elements of R15.

### Note to Assessors

1. Assessors are not expected to conduct an in-depth review of, or assess the country's assessment(s) of risks. Assessors, based on their views of the reasonableness of the assessment(s) of risks, should focus on how well the competent authorities use their understanding of the risks in practice to inform policy development and actions to mitigate the risks.
2. Assessors should take into consideration their findings for this Immediate Outcome (IO) in their assessment of the other IOs. However, assessors should only let their findings relating to the cooperation and coordination of measures to combat the financing of proliferation affect the assessments of IO11 and not of the other IOs. (i.e., IO2 to IO10) that deal with combating money laundering and terrorist financing.

## Core Issues to be considered in determining if the Outcome is being achieved

- 1.1. How well does the country understand its ML/TF risks?
- 1.2. How well are the identified ML/TF risks addressed by national AML/CFT policies and activities? To what extent are the results of the assessment(s) of risks properly used to justify exemptions and support the application of enhanced measures for higher-risk scenarios, or simplified measures for lower-risk scenarios?
- 1.3. To what extent are the results of the assessment(s) of risks properly used to justify exemptions and support the application of enhanced measures for higher-risk scenarios, or simplified measures for lower-risk scenarios?

- 1.4. To what extent are the objectives and activities of the competent authorities and SRBs consistent with the evolving national AML/CFT policies and with the ML/TF risks identified?
- 1.5. To what extent do the competent authorities and SRBs cooperate and coordinate the development and implementation of policies and activities to combat ML/TF and, where appropriate, the financing of proliferation of weapons of mass destruction?
- 1.6. To what extent does the country ensure that respective financial institutions, DNFBPs, and other sectors affected by the application of the FATF Standards are aware of the relevant results of the National ML/TF Risk Assessment(s)?

### a) Examples of Information that could support the conclusions on Core Issues

1. The country's assessment(s) of its ML/TF risks (e.g., types of assessment(s) produced; types of assessment(s) published/communicated)
2. AML/CFT policies and strategies (e.g., AML/CFT policies, strategies, and statements communicated/published; engagement and commitment at the senior officials and political level)
3. Outreach activities to private sector and relevant authorities (e.g., briefings and guidance on relevant conclusions from risk assessment(s); frequency and relevancy of consultation on policies and legislation, input to develop risk assessment(s), and other policy products)

### b) Examples of Specific Factors that could support the conclusions on Core Issues

4. What are the methods, tools, and information used to develop, review, and evaluate the conclusions of the assessment(s) of risks? How comprehensive are the information and data used?
5. How useful are strategic financial intelligence, analysis, typologies, and guidance?
6. Which competent authorities and relevant stakeholders (including financial institutions and DNFBPs) are involved in the assessment(s) of risks? How do they provide inputs to the national level ML/TF assessment(s) of risks, and at what stage?
7. Is the assessment(s) of risks kept up-to-date, reviewed regularly, and responsive to significant events or developments (including new threats and trends)?
8. To what extent is the assessment(s) of risks reasonable and consistent with the ML/TF threats, vulnerabilities, and specificities faced by the country? Where appropriate, does it take into account risks identified by other credible sources?

9. Do the policies of competent authorities respond to changing ML/TF risks?
10. What mechanism(s) or body do the authorities use to ensure proper and regular cooperation and coordination of the national framework and development and implementation of policies to combat ML/TF, at both policy making and operational levels (and where relevant, the financing of proliferation of weapons of mass

destruction)? Does the mechanism or body include all relevant authorities?

11. Is interagency information sharing undertaken in a timely manner on a bilateral or multiagency basis as appropriate?
12. Are there adequate resources and expertise involved in conducting the assessment(s) of risks and for domestic cooperation and coordination?

Source: FATF 2021.

## Appendix C. Key Differences between NRAs and Mutual Evaluations

	National Risk Assessment	Mutual Evaluation
<b>Assessors</b>	Self-assessment by a national task force or working group that usually includes experts from all relevant state agencies and the private sector.	External assessment by FATF or FSRB assessment teams. These assessment teams comprise four to seven foreign experts from FATF or FSRB secretariats and member countries. The International Monetary Fund and the World Bank are also assessor bodies and conduct the evaluations of some countries.
<b>Objective</b>	Complying with FATF Recommendations by understanding the ML/TF risks in the country and building a risk-based AML/CFT regime.	Assessing the compliance of the country with FATF's 40 Recommendations in terms of both technical compliance and effectiveness.
<b>Timing</b>	Is determined by the jurisdiction. A country is expected to conduct the assessment of ML/TF risks before the mutual evaluation. The assessment and understanding of risks should be updated as necessary.	Decided by FATF or FSRBs. Happens once in an assessment round. The current round started in 2013 and is expected to end in 2025.
<b>Criteria</b>	Depends on the NRA tool or methodology developed or used by the country. Each may have different criteria.	Based on FATF's official assessment methodology, which should be consistently applied in all assessments.
<b>Output</b>	An NRA report or other type of documentation about money laundering risks. The countries may choose to publish these. Depending on the NRA methodology, the report may contain some ratings or scores.	Mutual Evaluation Report (MER). This report has a standard format that lists and explains the country's 40 technical compliance and 11 immediate outcome ratings. MERs are always published.
<b>Outcome</b>	By exhibiting a good understanding of risks and effective implementation of a risk-based approach, the country expects to receive a good rating mainly on Recommendation 1 and Immediate Outcome 1 (of 40 Recommendations and 11 Immediate Outcomes) in the Mutual Evaluation.	If the country cannot pass a threshold in complying with the 40 Recommendations and 11 Immediate Outcomes, it becomes subject to enhanced monitoring, which may lead to gray listing or blacklisting.

Source: Cited, with adjustments, from Celik et al. 2020.

Note: FATF = Financial Action Task Force; FSRB = FATF-style regional body; AML = anti-money laundering; CFT = countering the financing of terrorism; NRA = National ML/TF Risk Assessment.

## Appendix D. NRA Survey Questions

### NRA SURVEY 1 – Conducted during the Training on New NRA Tools

Date: May 6, 2022

Participants: 268

Jurisdictions: 60

1. Please indicate your country.
2. Have you ever been involved in your country's National Money Laundering/Terrorist Financing Risk Assessment?  
Yes  
No
3. Has your country ever used the World Bank's NRA Tool?  
Yes  
No  
Not sure
4. How would you rate the effectiveness of your country's last National ML/TF Risk Assessment?  
Low  
Moderate  
Substantial  
High
5. What should your authorities do differently in the next National ML/TF Risk Assessment to make it more effective than the past experience?  
Open-ended.
6. In your view, has the past NRA had any tangible impact on the effectiveness of your AML/CFT system?  
No or minimal impact  
Had partial impact  
Yes, it had a significant impact.
7. In your view, has your country built the capacity to do the next National ML/TF Risk Assessment without any external support (i.e., from the World Bank or IMF)?  
Yes, to a large extent  
Partially, support is still needed.  
No, significant support is needed.

### NRA SURVEY 2 – Conducted during the Dissemination Event for a World Bank Study on NRAs

Date: May 30, 2022

Participants: 173

Jurisdictions: 48

1. How would you rate the effectiveness of your country's last National ML/TF Risk Assessment?
2. What challenges may impact the quality of the next NRA of your country if not addressed properly? (You can indicate up to 4 options.)  
Lack of a risk assessment tool or methodology  
Lack of experience and knowledge  
Intervention from upper management  
Lack of empowerment (of the NRA working group)  
Resource-related challenges (i.e., time, staff)  
Unintended consequences on the country's reputation  
Lack of political commitment  
Coordination problems
3. In your view, which crimes generate the highest amount of criminal proceeds in your jurisdiction? (Please rank from high to low.)  
Human/migrant smuggling  
Drug trafficking  
Environmental (and wildlife) crimes  
Corruption (all types)  
Cybercrimes  
Tax fraud and evasion  
Other fraud (e.g., banking, insurance, ponzy schemes)  
Robbery and theft
4. Please indicate your country.

## Appendix E. Supplementary Tables and Figures

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**TABLE E.1. Immediate Outcome 1 Ratings in FATF and FSRBs**

Immediate Outcome 1	APG	CFATF	EAG	ESAAMLG	FATF	GABAC	GAFILAT	GIABA	MENAFATF	MONEYVAL	Grand Total
High Effectiveness		1			1						2
Substantial Effectiveness	5	1	3		26		2		2	7	46
Moderate Effectiveness	9	6		3	5		10	3	5	17	58
Low Effectiveness	6	6	1	11	1	3	1	9	1	1	40
<b>Total</b>	<b>20</b>	<b>14</b>	<b>4</b>	<b>14</b>	<b>33</b>	<b>3</b>	<b>13</b>	<b>12</b>	<b>8</b>	<b>25</b>	<b>146</b>

Percentage in each body	APG	CFATF	EAG	ESAAMLG	FATF	GABAC	GAFILAT	GIABA	MENAFATF	MONEYVAL	Overall
High Effectiveness	0%	7%	0%	0%	3%	0%	0%	0%	0%	0%	1%
Substantial Effectiveness	25%	7%	75%	0%	79%	0%	15%	0%	25%	28%	32%
Moderate Effectiveness	45%	43%	0%	21%	15%	0%	77%	25%	63%	68%	40%
Low Effectiveness	30%	43%	25%	79%	3%	100%	8%	75%	13%	4%	27%

Source: Study data based on mutual evaluation reports.

Note: Please note that the number of total members and assessed countries is quite low in some of the FSRBs, requiring caution in interpreting the percentage results in these countries. APG = Asia/Pacific Group on Money Laundering; CFATF = Caribbean Financial Action Task Force; EAG = Eurasian Group; ESAAMLG = Eastern and Southern African Anti-Money Laundering Group; FATF = Financial Action Task Force; FSRB = FATF-style regional bodies; GABAC = Action Group against Money Laundering in Central Africa; GAFILAT = Financial Action Task Force of Latin America; GIABA = Inter-Governmental Action Group against Money Laundering in West Africa; MENAFATF = Middle East and North Africa Financial Action Task Force; MONEYVAL = Committee of Experts on the Evaluation of AML/CFT.

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**TABLE E.2. Recommendation 1 Ratings in FATF and FSRBs**

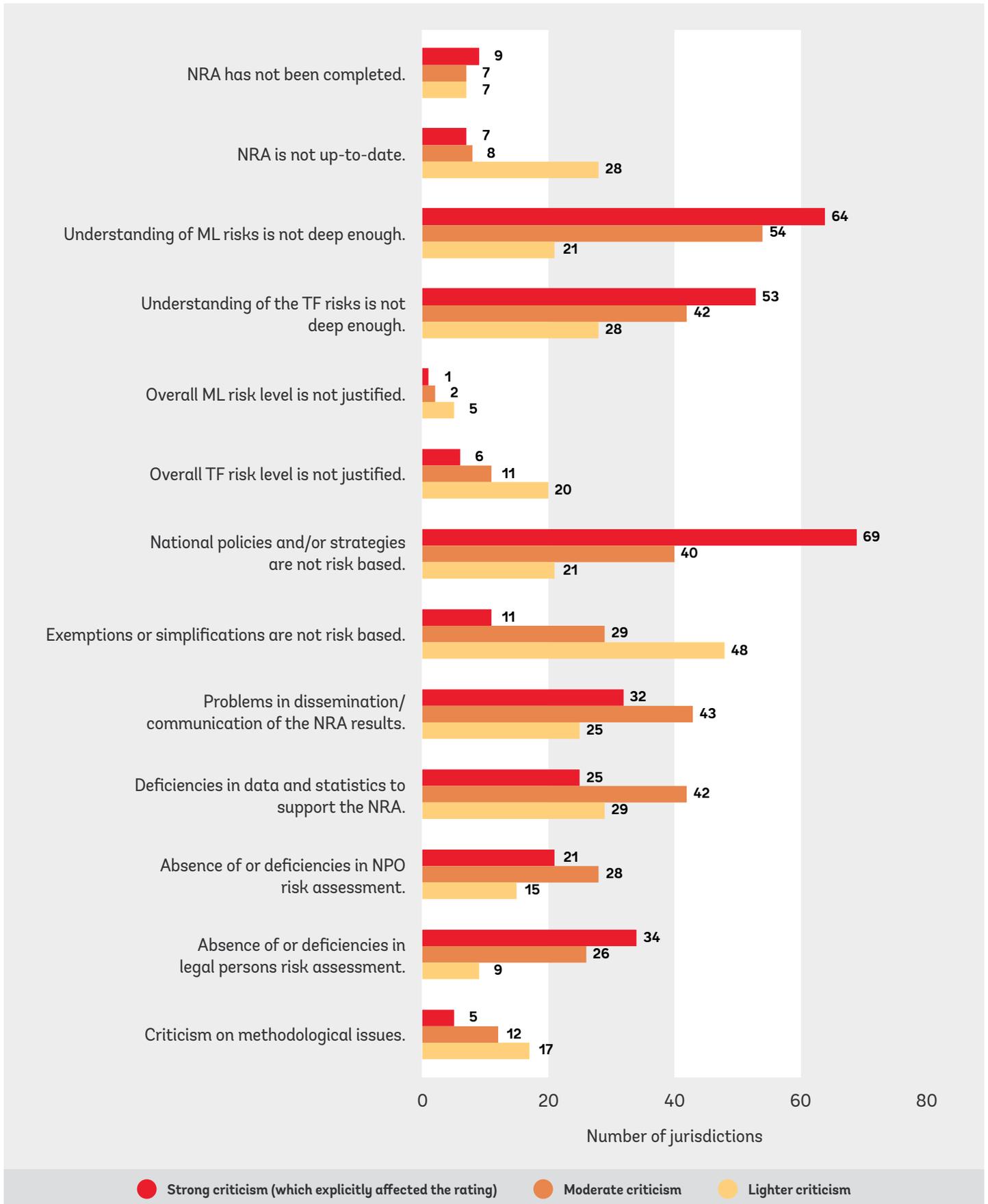
Recommendation 1	APG	CFATF	EAG	ESAAMLG	FATF	GABAC	GAFILAT	GIABA	MENAFATF	MONEYVAL	Overall
Compliant		1			1					1	3
Largely Compliant	5	3	3	3	25		10	6	2	13	70
Partially Compliant	13	9	1	6	7	2	3	6	5	11	63
Non-compliant	2	1		5		1			1		10
<b>Total</b>	<b>20</b>	<b>14</b>	<b>4</b>	<b>14</b>	<b>33</b>	<b>3</b>	<b>13</b>	<b>12</b>	<b>8</b>	<b>25</b>	<b>146</b>

Percentage in each body	APG	CFATF	EAG	ESAAMLG	FATF	GABAC	GAFILAT	GIABA	MENAFATF	MONEYVAL	Overall
Compliant	0%	7%	0%	0%	3%	0%	0%	0%	0%	4%	2%
Largely Compliant	25%	21%	75%	21%	76%	0%	77%	50%	25%	52%	48%
Partially Compliant	65%	64%	25%	43%	21%	67%	23%	50%	63%	44%	43%
Non-compliant	10%	7%	0%	36%	0%	33%	0%	0%	13%	0%	7%

Source: Study data based on mutual evaluation reports.

Note: Please note that the number of total members and assessed countries is quite low in some of the FSRBs, requiring caution in interpreting the percentage results in these countries. APG = Asia/Pacific Group on Money Laundering; CFATF = Caribbean Financial Action Task Force; EAG = Eurasian Group; ESAAMLG = Eastern and Southern African Anti-Money Laundering Group; FATF = Financial Action Task Force; FSRB = FATF-style regional bodies; GABAC = Action Group against Money Laundering in Central Africa; GAFILAT = Financial Action Task Force of Latin America; GIABA = Inter-Governmental Action Group against Money Laundering in West Africa; MENAFATF = Middle East and North Africa Financial Action Task Force; MONEYVAL = Committee of Experts on the Evaluation of AML/CFT.

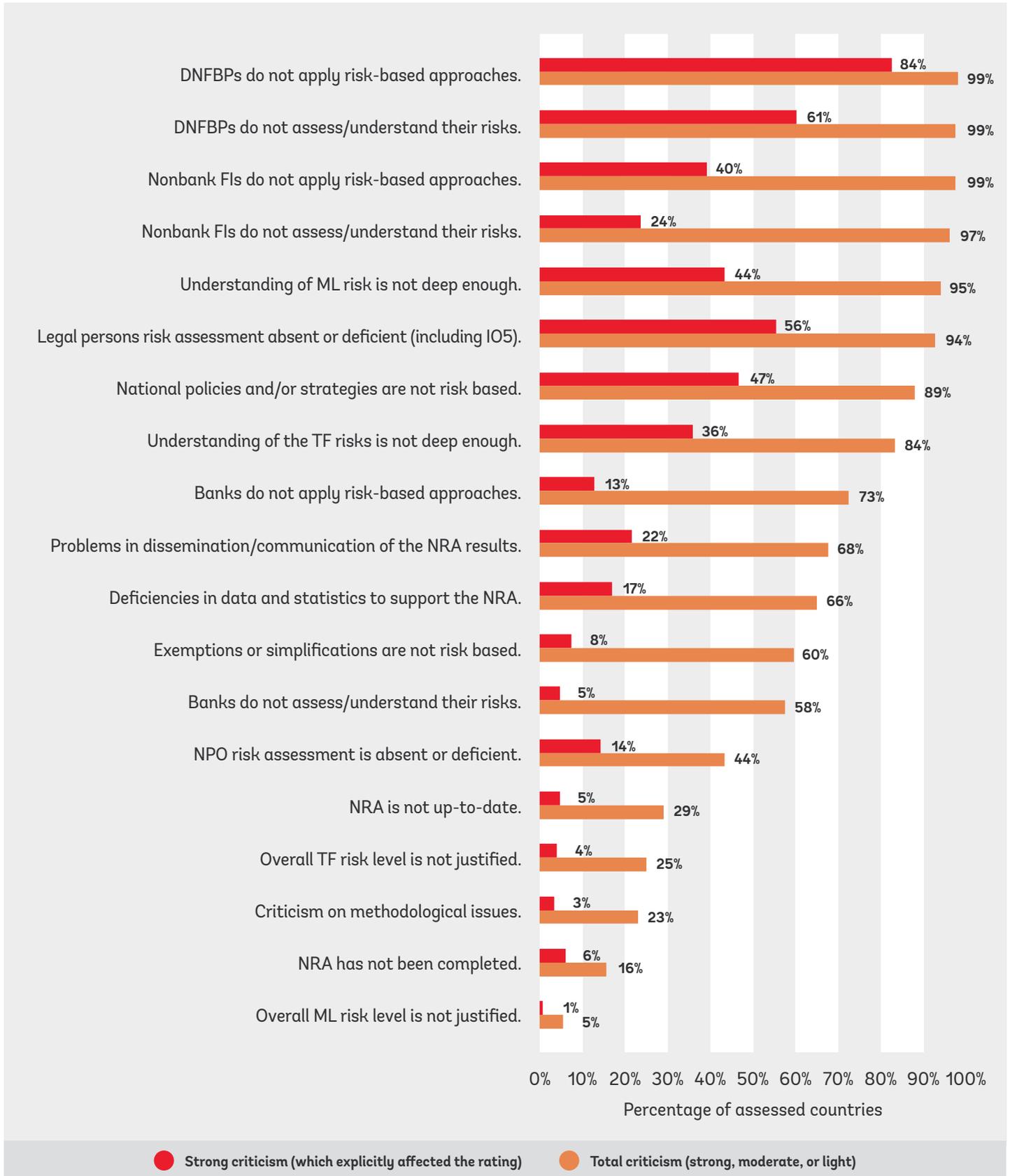
**FIGURE E.1. Degree of Criticism Related to Immediate Outcome 1, by Number of Countries**



Source: Study data based on mutual evaluation reports.

Note: NRA = National ML/TF Risk Assessment; ML = money laundering; TF = terrorist financing; NPO = nonprofit organization; LP = legal person.

**FIGURE E.2. Criticism on the Risk-Based Approach in IO1, IO4, and IO5, as a Percentage of the Assessed Jurisdictions**

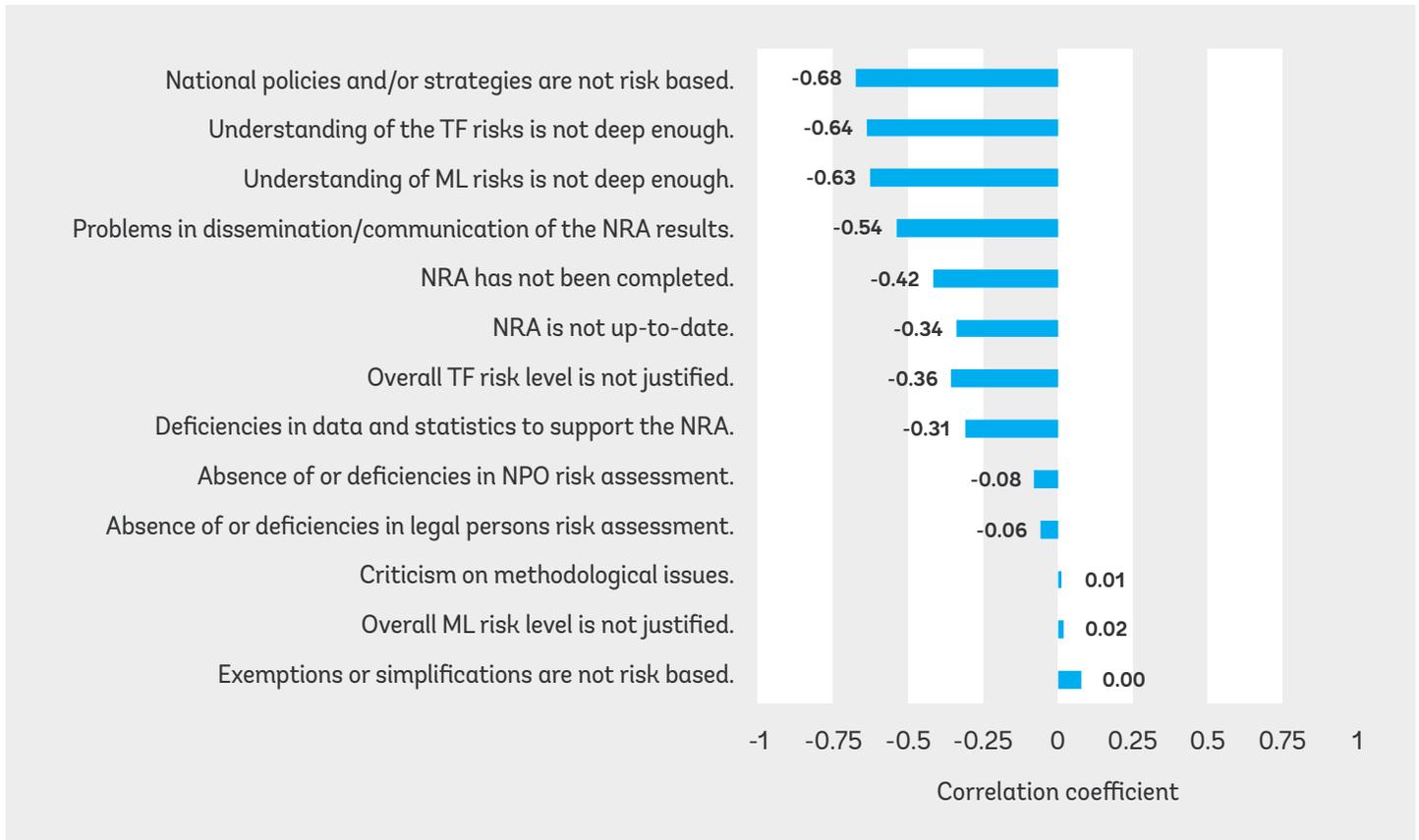


Source: Study data based on mutual evaluation reports.

Note: Affected rating means that the criticism affected the rating. IO1 = Immediate Outcome 1; IO4 = Immediate Outcome 4; IO5 = Immediate Outcome 5; DNFBPs = designated nonfinancial businesses and professions; nonbank FIs = nonbank financial institutions; ML = money laundering; TF = terrorist financing; NRA = National ML/TF Risk Assessment; NPO = nonprofit organization; LP = legal person.

> > >

**FIGURE E.3. Spearman's Correlations between Criticism Categories and IO1 Effectiveness Ratings**

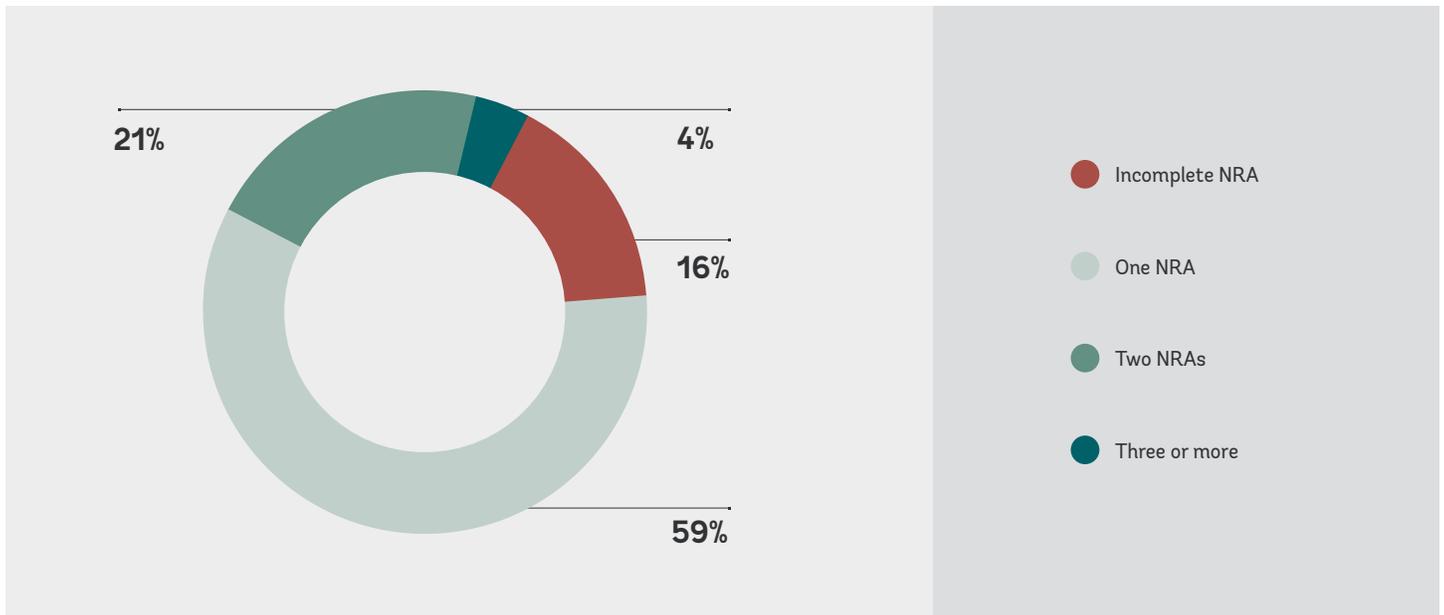


Source: Study data based on mutual evaluation reports.

Note: ML = money laundering; NPO = nonprofit organization; NRA = national risk assessment; TF = terrorist financing.

> > >

**FIGURE E.4. Number of NRAs Completed by Jurisdiction as of Mutual Evaluation Onsite Visit Date**

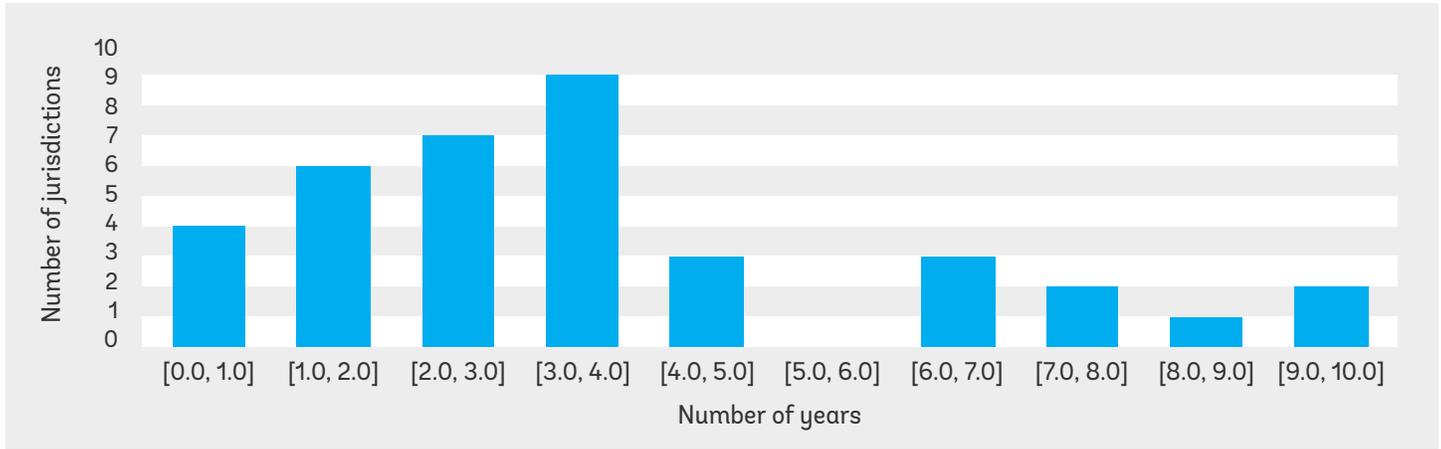


Source: Study data based on mutual evaluation reports.

Note: NRA = national risk assessment.

> > >

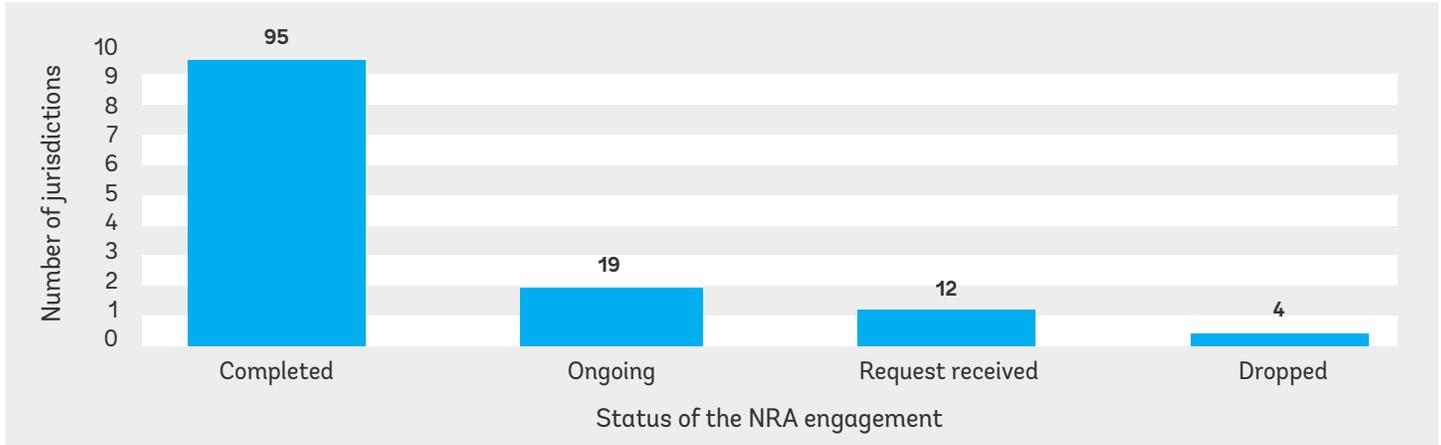
**FIGURE E.5. Frequency of NRA (in Jurisdictions with More than One NRA)**



Source: Study data based on mutual evaluation reports.  
 Note: Bins in x-axis exclude lower and include upper value. NRA = National ML/TF Risk Assessment.

> > >

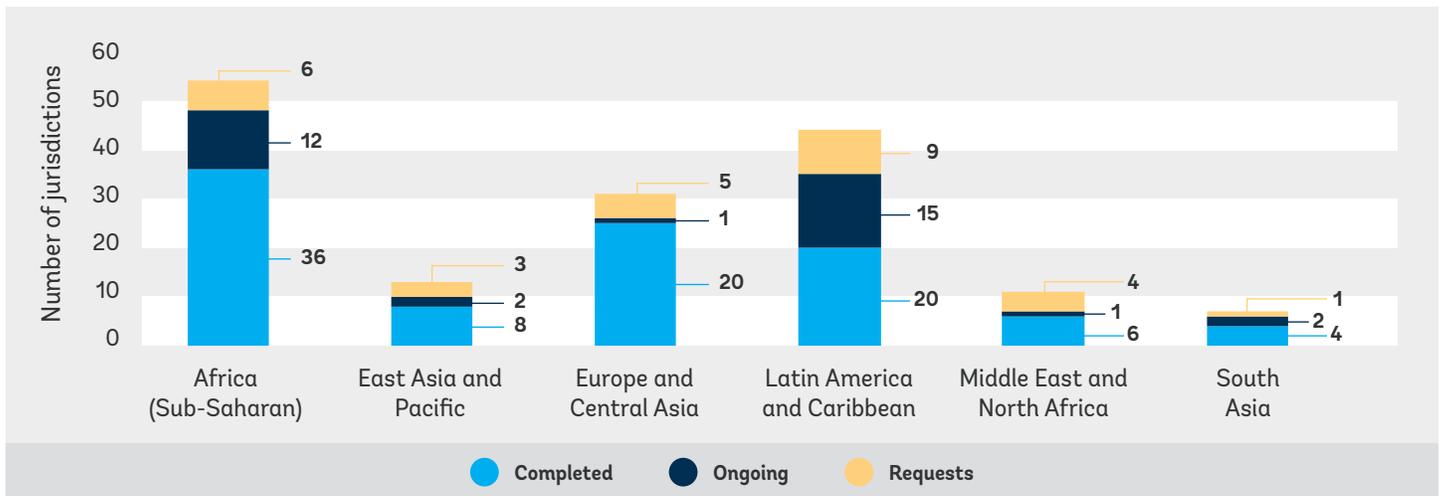
**FIGURE E.6. Number of Jurisdictions That Received NRA Support from the World Bank**



Source: World Bank Financial Stability and Integrity Team records.  
 Note: NRA = National ML/TF Risk Assessment.

> > >

**FIGURE E.7. Number of the World Bank’s NRA Engagements, by Region**



Source: World Bank Financial Stability and Integrity Team records.  
 Note: Numbers include updates and partial assessments. NRA = National ML/TF Risk Assessment.

# Appendix F. Perceptions Survey for National Risk Assessment Working Group Members

**1. Do you think your country detects:**

- A. All incidents of money laundering?
- B. Most incidents?
- C. Some incidents?
- D. Just a few incidents?
- E. Almost none?

**2. What factors in your country hinder the effectiveness of the ML/TF regime?**

(Please identify the top 3 impediments.)

- A. Political commitment
- B. Corruption
- C. Public awareness
- D. Laws and regulations
- E. The FIU and its leadership
- F. The supervisory agencies
- G. Law enforcement agencies
- H. The prosecution/judicial system
- I. Domestic or international cooperation
- J. Other matters...

**3. Estimate the size of the proceeds of crime in your country.**

- A. Low
- B. Medium Low
- C. Medium
- D. Medium High
- E. High

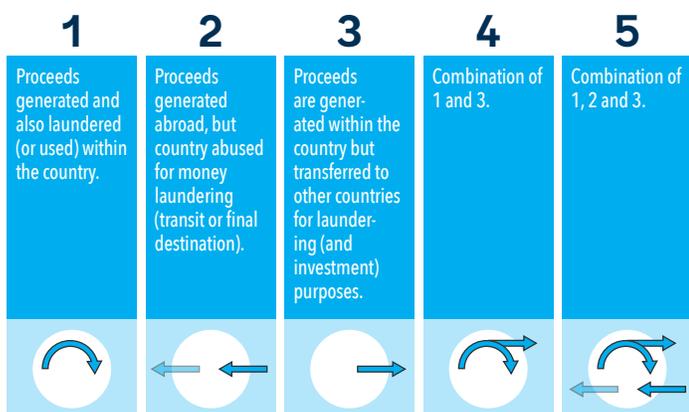
**4. Which crimes are the main source of illicit proceeds in your country?**

(Please list at least the top 5 criminal activities.)

...

**5. Are these illicit proceeds generated within your country or abroad?**

(Please identify the main pattern within your country.)



**6. From which countries of origin do most illegal proceeds come to your jurisdiction (forming the biggest money laundering threat)?**

(Please rank the top 5 countries/regions that may be the main originators of the proceeds of crimes within your jurisdiction.)

...

**7. Which countries/regions are the main destinations for the proceeds of crimes from your jurisdiction?**

(Please rank the 5 countries/regions that you consider the main destination countries.)

**8. What are the high-risk sectors within your country? And why?**

(Please rank the 5 sectors that you consider at the highest risk of abuse for ML/TF purposes.)

...

**9. What are the riskiest products/services in your country? And why?**

(Please rank the top 5 products/services that you consider to be at highest risk of abuse for ML/TF purposes.)

**10. Is the terrorism risk in your jurisdiction.**

- A. Low?
- B. Medium Low?
- C. Medium?
- D. Medium High?
- E. High?

**11. Is the terrorist financing risk in your jurisdiction.**

- A. Low
- B. Medium Low
- C. Medium
- D. Medium High
- E. High

**12. Depending on the terrorism and TF risk levels, please discuss:**

- The financial resources of the terrorist groups.
- Links with other countries, especially in terms of terrorist financing.
- Effectiveness issues in fighting against terrorist financing.

## Appendix G. Responses to the Survey Question, “What Would You Do Differently in a Future NRA?” (Unedited)

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- Be less dependent on the results and methodology of the previous NRA.
- [Establish] more public-private and public-public collaboration.
- Try to elicit better participation from more public competent authorities.
- Update the NRA with current data to ensure that it remains relevant.
- Better scheduling and management of the overall risk-assessment process.
- Establish a formalized process to centralize and organize information from different sources by establishing a procedure enabling a central agency to obtain information from institutions and increased resource allocation dedicated to the NRA.
- Ensure necessary resources are committed to the assessment.
- Continue to improve and refine data and qualitative information.
- Main NRA report (full report) should not be shortened as the previous time, so that all findings with all supporting reasons and priorities are expressed.
- Remedial actions and distribution of results to main actors should be the top priority.
- Be more committed to collecting quality information and data.
- Lack of appreciation from and/or coordinated efforts with the executives of different stakeholders involved in the NRA. It seems that middle management is always constrained by executive decisions.
- Be more practical.
- Improve data capture and broaden the scope of stakeholders involved.
- Draft a more concise document.
- Additional quantitative data is needed to make more accurate assessments. Generally, the tool should be more focused on leading the national agencies in which quantitative data to use.
- Some modules should precede others or the same data should be submitted to different modules.
- Enhance data collection systems.
- Request data upfront.
- Provide more guidance to participants.
- Seek a solution for the limited availability of human resources to conduct the assessment.
- Ensure that everyone gets the opportunity to work on this and is focused.
- Have participants that are able to allocate more time to the assessment.
- Make use of statistics and gather data beforehand.
- While the effectiveness was substantial, some factors hindered the ability of the working group. It is always a complex situation to maintain participation.
- Broader participation.
- More resources.
- The threat assessment should be much more efficient.
- To pay more attention to the methodology of TF threats' and vulnerabilities' assessment, because we have no significant cases of TF.
- The country should include all stakeholders that manage risk relate to ML/TF, including the NPO sector and immigration as well as legal entities and legal arrangements.
- Bring in all relevant stakeholders.
- More stakeholders should be involved and more resources should [be] assigned for the assessment.
- Some of the working group from the NRA should do the NRA genuinely. And some government offices should have to present genuine data.
- Provide better training on NRA tools for members of the assessing groups.
- Bring all accountable institution into the scope.
- Mobilize relevant stakeholders; increase understanding of the process; collect more data; mobilize more resources; cover more sectors; improve the communication of results to the wider audience.
- Active participation and coordination from government institutions is required as well as sharing information about identified patterns and trends in the use of financial services and/or economic trades and professions.
- Update the NRA with current information in order to expose risks, and assess them in an opportune time. The previous NRA, when published, was no longer current.

- The establishment of a permanent agency solely responsible for conducting the assessment and monitoring/overseeing the implementation of the action plan would go a long way in terms of effectiveness.
- Alignment of definition of data collected.
- Earlier engagement to set out the details (timeline, milestones, etc.) of the assessment.
- Amendment of the law, involvement of more stakeholders, etc.
- Put in more regarding terrorist financing risks, as well as more details around NPOs.
- Perhaps more engagement with the private sector.
- Early focus on the structure of the final report.
- More outreach with industry prior to publication.
- Complete targeted work by sector—taking on all FIs and DNFBPs at once is daunting.
- Have up-to-date, quality data.
- Increased understanding of TF and context will feed into the NRA.
- Involve industry more, at all levels of seniority (i.e., heads of firms to compliance assistants).
- Include a Proliferation Financing Risk Assessment.
- Address its [the country's] vulnerability and deficiency, which are the result of the last assessment.
- Coordinate with all sectors to implement and follow the AML legislation.
- Improve their own legislation in accordance with AML Law.
- There is need for political will.
- Recordkeeping is critical in assessment of the risk.
- Understanding of ML/TF across all stakeholders is equally important.
- Implementation of the recommendations of the report.
- Assess all sectors. More sensitization and awareness about the process should be made. The understanding of the responding institutions has to be improved for quality responses and timely submission of data and other information.
- Tool given to managers, not technicians.
- Stakeholders' focal points change.
- Tool too complex to be mastered quickly.
- Suggestions: train larger group of people including technicians, nominate a focal point within the World Bank to receive questions about the tool.
- Effectively assess BO [beneficial ownership], NPOs, and tax crimes.
- Have in place an adequate data collection system.
- Ensure that relevant experienced officers are involved in the exercise.
- Collect more data.
- The main lesson is that the Action Plan that is a product of the NRA should be completed by a country as much as possible.
- Assess all sectors in depth.
- More data are needed.
- NRA should also be able to detect low/lower risk area/sectors. NRA focuses only on "AML/CFT obliged entities" sectors (e.g. what about other economic sectors?). This would help the application on simplified customer due diligence measures.
- There is necessity to have more systematic and continuous approach to NRA (especially related to collection of statistics), to raise awareness on the importance of NRA among heads of relevant institutions, and have devoted and skilled working group representatives.
- We should conduct more capacity building for the staffs involved and provide practical experience to the people working on the NRA.
- Be more specific in data and information to be collected to feed into the module. Be more engaged with experts and locals.
- More industry input.
- More statistics, cooperation.
- Ensure better communication and exchange of information between different modules.
- Include additional stakeholders, more coordination, etc.
- Interagency collaboration and prepare domestic stakeholders/authorities to understand ML/TF risks.
- Improve data sharing among different agencies.
- Have a timeframe. It must not take too long because the risks are not static. By the time the NRA is finalized, it may not reflect the current material on the ground.
- Ensure bottlenecks that hamstring the prosecution of serious corruption cases are resolved and that there is a proper bullet-proof process for registering NPOs to avoid the exploitation of gaps by terrorists, as well as a transparent entity registry.
- Provide more quantitative data, information, statistics, and case studies to substantiate the NRA methodology used.

- Ensure better coordination of information and have better political will.
- Obtain cooperation from various role players.
- Understand the entire risk environment.
- Interpret the data correctly.
- Besides relevant government entities being part of this process, the private sector, including financial institutions, DNFBPs, and VASPs should be included and should provide their input/comments on the NRA from their perspective.
- To start early, involve all relevant role players, and update at least every 2 years, as risk can change.
- Some modules were too complicated. So, if World Bank can introduce simple modules, it will be useful to the countries that are having difficulties with collecting information from formal sectors.
- Increase the number of stakeholders who take part in the NRA.
- Consider all possible sources of money laundering and terrorist financing risk, and involve many stakeholders in the risk assessment process.
- Increase the number of shareholders who participate in NRA.
- Concrete and clearly formulated questions regarding the gathering of qualitative and quantitative information.
- Involve more DNFBPs during the NRA and try to gather as much data as possible.
- Provide good-quality statistics.
- Collect data/statistics.
- Share resources more freely and collaborate more actively.
- Plan adequately, get buy-in from higher level, provide adequate and meaningful training to key players, allocate resources dedicated to the NRA tasks, and involve private sector at the early stages.
- The authorities should ensure that the assessment is conducted by the most qualified persons and that measures are put in place to sensitize the public of the assessment and to ensure participation.
- [Improve] data coordination and follow up on Recommended Action items.
- Ensure the availability of data. Ensure all stakeholders and private sector fully understand the process and perhaps are exposed to some training at the outset.
- The has many issues which created a flawed NRA. One of the biggest issues lies in understanding the risks associated with ML/TF, and the lack of knowledge on ML/TF within the government and private sector. More awareness in all forms is needed.
- Ensure that authorities and private entities provide more data for input in the Tool. Assess more risks such as VASPs and Proliferation Financing.
- Provide more data.
- Build capacity in the awareness on ML/FT to relevant parties such as the DNFBP sector, including their supervision.
- Analyses of data need to be improved and independent of the sectors being analyzed.
- There is need for more trainings on utilization of the Tool.
- Increase budget for risk assessment.
- Provide more practical experiences.
- Better planning, coordinating.
- Clearly explain the role of each member.
- Familiarize members on the NRA World Bank Toolkit.
- Strengthen controls to prevent and mitigate risks.
- Improve the knowledge of the Final Beneficiary.
- Consolidate Risk Management Systems.
- Use technologies that improve prevention systems.
- Periodic self-assessments to apply the Risk-Based Approach.
- Some new issues were not covered in the last NRA, such as VA [virtual asset], BO transparency, some contents are limited. Thus, in the next NRA, our authorities should expand the scope of the NRA to cover new components and address the limitations of the last NRA.
- Focus more on data gathering and the identification of threats and linking those threats to sectoral vulnerabilities.
- Improve coordination.
- Consider all parameters and all new products.
- It is important to include the private sector when conducting certain aspects of the NRA. Details about deficiencies in supervising and monitoring the system need to be well managed so as to avoid possible abuse before authorities remediate gaps.
- Keep the data collection timeframe short and focused, and develop clear information requests/questionnaires for data collection.

## Appendix H. Recommendation 33 Ratings and Data and Statistics-Related Criticism in Immediate Outcome 1

> > >

**TABLE H.1.** Discrepancies between Data-Related Issues in IO1 and R33 Ratings

Country	Criticism (in Immediate Outcome 1) for deficiencies in data and statistics to support the NRA	(CFATF) Caribbean Financial Action Task Force.
Armenia	Explicit impact on IO 1 rating	C
Cabo Verde	Explicit impact on IO 1 rating	C
Andorra	Explicit impact on IO 1 rating	LC
Burkina Faso	Explicit impact on IO 1 rating	LC
Costa Rica	Explicit impact on IO 1 rating	LC
Cuba	Explicit impact on IO 1 rating	LC
Gambia, The	Explicit impact on IO 1 rating	LC
Isle of Man	Explicit impact on IO 1 rating	LC
Nicaragua	Explicit impact on IO 1 rating	LC
Suriname	Explicit impact on IO 1 rating	LC
Sweden	Explicit impact on IO 1 rating	LC
Turks and Caicos Islands	Explicit impact on IO 1 rating	LC
Malta	Moderate criticism in IO 1	C
Paraguay	Moderate criticism in IO 1	C
St. Kitts and Nevis	Moderate criticism in IO 1	C
Bahrain	Moderate criticism in IO 1	LC
Belarus	Moderate criticism in IO 1	LC
Benin	Moderate criticism in IO 1	LC
Kyrgyz Republic	Moderate criticism in IO 1	LC
Lithuania	Moderate criticism in IO 1	LC
Netherlands	Moderate criticism in IO 1	LC
Niger	Moderate criticism in IO 1	LC
Portugal	Moderate criticism in IO 1	LC
Serbia	Moderate criticism in IO 1	LC
Sierra Leone	Moderate criticism in IO 1	LC
South Africa	Moderate criticism in IO 1	LC
Tajikistan	Moderate criticism in IO 1	LC
Tonga	Moderate criticism in IO 1	LC
Türkie	Moderate criticism in IO 1	LC
United Arab Emirates	Moderate criticism in IO 1	LC
United Kingdom	Moderate criticism in IO 1	LC

Source: Study data based on mutual evaluation reports.

Note: C = compliant; LC = largely compliant; IO1 = Immediate Outcome 1; NRA = National ML/TF Risk Assessment; R33 = Recommendation 33 (statistics).

## Appendix I. Excerpts from Mutual Evaluation Reports of Jurisdictions Commended for Their Risk Assessments

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### Antigua and Barbuda

For the completion of the NRA, Antigua and Barbuda demonstrated that both the public and private sectors stakeholders were involved in the process and were part of the various working groups (p.9).

The Assessors considered the results and conclusions of the NRA as reasonable as they covered a wide spectrum of the ML/TF regime of Antigua and Barbuda (p. 23).

The NRA process involved the participation of a wide array of persons including representatives from both the public and private sector; and involved contributions from high-ranked government officials to the process. The involvement of the latter demonstrates the country's commitment at the highest level in completing the process (p. 34).

A considerable amount of resources and efforts were invested by the jurisdiction to collect and analyse information and data (p. 36).



### Aruba

There is a good understanding of the ML/TF risks among most competent authorities. The understanding of the ML/TF risks is based on the published findings of the ML/TF/PF NRAs, sectoral risk assessments conducted by the CBA, participation in regional typology exercises and the NRAs, ML/TF risk assessments conducted by the FIs and DNFBPs and the institutional knowledge and expertise of various competent authorities, primarily LEAs, the PPO, the FIU and CBA. The foregoing has resulted in a shared understanding among most competent authorities of the higher risk issues that have an impact on the jurisdiction (p. 39).

The 2021 NRAs involved participation of public and private sector officials and the findings are considered to be reasonable. The NRAs considered a wide cross-section of threats and vulnerabilities (p. 12).

Inadequate statistics, lack of information pertaining to financial inflows and outflows and lack of data on the informal economy were some of the main challenges experienced by competent authorities in the conduct of the 2021 NRAs. However, the challenges experienced did not significantly impact the conduct and outcomes of the NRAs, as these were mitigated by alternative sources of information, for example, qualitative data such as case studies on ML investigations and prosecutions, and publications from regional and international organisations and countries, including the FATF and the USA (p. 39).

The assessors found that there was a shared understanding of ML/TF risks, most importantly the higher risk issues as reflected in the NRAs, among most competent authorities (p. 41).

The assessors found that the authorities were honest in the conduct of the NRAs, as challenges, including the absence of statistics in some instances (ML investigations and prosecutions by LEAs and the PPO) and lack of information on the informal economy and financial flows were clearly cited (p. 43).



## Bermuda

The NRA processes undertaken by the jurisdiction were well structured, and the conclusions were reasonable. The onsite interviews confirmed the involvement of a wide range of government agencies, and the private sector in the NRA process (p. 17).

Bermuda has successfully demonstrated that the ML/TF risks in each of its regulated sectors have been identified, analysed and understood. Bermuda's NRA process has established a basis for the DNFBPs, private sector and government agencies to understand the jurisdiction's ML/TF risks (p. 31).

Bermuda has taken significant steps and has comprehensively engaged all critical stakeholders to fairly assess their ML/TF risks and as a result, Bermuda's assessments of ML/TF risks, especially in the 2016 and 2017 NRAs were reasonable, credible and comprehensive. The efforts undertaken by NAMLC and all supervisory authorities to engage and communicate with relevant stakeholders about the results of the 2016 and 2017 NRAs, as well as the appropriate steps to be taken in relation to these findings, has resulted in CAs, the SRB and private sector stakeholders having a very robust understanding of sectoral and national ML/TF risks (p. 34).

Bermuda took a comprehensive approach in conducting its NRA as private and public-sector officials participated in working groups to identify and assess the jurisdiction's ML/TF risks. The majority of the FIs, DNFBPs and NPOs interviewed during the onsite visit confirmed that they were aware of the NRA which provided an enhanced understanding of the potential risk and vulnerabilities that in some instances were already identified through their own risk assessments (p. 39).

Bermuda's CAs properly identify, assess and understand existing and emerging ML and TF risks on a continuous basis, and co-ordinate appropriate actions domestically to mitigate these risks (p. 39).



## Canada

The authorities have a generally good level of understanding of Canada's main ML/TF risks. The public version of the 2015 NRA is of good quality. It is based on dependable evidence and sound judgment, and supported by a convincing rationale. In many respects, the NRA confirmed the authorities' overall understanding of the sectors, activities, services and products exposed to ML/TF risk (p. 7).

Canada's NRA is comprehensive, and also takes into account some activities not currently subject to the AML/CFT measures (p. 33).

The authorities demonstrated a sound understanding of the issues highlighted in Chapter 1, including a good understanding of the linkages between the threats and inherent vulnerabilities of the different sectors and the domestic and foreign offenses that are a source of most of the ML/TF in the country. The NRA process has also contributed to a deeper understanding of the powers, resources and operational needs of all regime partners (p. 34).

Canada's ML/TF Inherent RA is supported by a documented NRA Methodology with defined concepts on ML/TF risks and rating criteria (p. 117).

The NRA consists of an assessment of the inherent (that is, before the application of any mitigation measures) ML/TF threats and inherent ML/TF vulnerabilities of key economic sectors and financial products, while considering the contextual vulnerabilities of Canada, such as geography, economy, financial system and demographics (p. 117).



## Cyprus

Cyprus published its first National Risk Assessment (NRA) in October 2018 with the participation of all relevant competent authorities and the involvement of private sector entities (p. 17).

During the process, information, including statistical data, was provided by stakeholders across the public and private sectors. Reports issued by MONEYVAL and other relevant reports from independent sources were also taken into consideration (p. 17).

There was also a significant increase in the quantity and quality of information available at the time of the assessment team's visit to Cyprus compared with post 2013 (p. 29).

The assessment was based on public sector and private sector workshops, surveys and interviews and the analysis of a wide set of qualitative and quantitative data (p. 193).



## Ghana

The process for the conduct of the NRA was inclusive, involving all critical stakeholders in the public and private sectors thus, ensuring a broad understanding of the ML/TF risks and improvement in inter-agency cooperation and collaboration on ML/TF issues (p. 39).

The public version of the 2016 NRA is of good quality. It is based on dependable evidence and sound judgment and supported by a convincing rationale. In many respects, the NRA confirmed the authorities' overall understanding of the sectors, activities, services and products exposed to ML/TF risk (p. 13).

The country adopted a research-based approach, using people who are very knowledgeable on the subject and deploying tools provided by the World Bank to capture data from relevant sectors of society (p. 42).



## Greece

Greece completed its first National Money Laundering and Terrorist Financing Risk Assessment (NRA) in May 2018, which provides a high-level overview of a range of ML threats and risks in Greece, including areas thought to pose low risk (p. 155).

The working groups considered both qualitative and quantitative data, including information publicly available and obtained through their supervisory actions, and private sectors' response to a questionnaire. They also conducted interviews with experts and consulted relevant members of the private sector to evaluate the individual threat and vulnerability variables. The groups also considered the EU supranational risk assessment (pp. 36–37).

The NRA covers both ML and TF and identifies major threats, ML/TF risk enhancing and reducing factors, and provides a final residual risk rating (i.e., taking into account AML/CFT measures in place) to financial and nonfinancial sectors operating in Greece (p. 21).



## Hong Kong SAR, China

HKC [Hong Kong SAR, China] has a reasonably good level of understanding of its ML/TF risks. This understanding is largely informed by the territory-wide risk assessment exercise which was developed over several years and culminated in the HRA (published in April 2018) (p. 37).

HKC has separately assessed its TF threats and vulnerabilities and has a good understanding of its TF risk. This was informed by both the HRA exercise and more importantly, additional analysis based on investigations of potential TF and intelligence from the FSCCT, which sits within the HKPF and assesses intelligence from all relevant LEAs (p. 39).

The risk assessment is generally comprehensive and demonstrates HKC has identified and assessed most of the ML/TF risks in HKC (p. 165).

Some competent authorities (e.g., the HKPF, the HKMA) have conducted their own targeted assessments which have a positive effect on HKC's overall risk understanding (p. 35).



## Indonesia

In 2021, Indonesia conducted a holistic risk assessment of ML/TF/PF, with the involvement of a number of ministries, law enforcement authorities, supervisory agencies and regulators, reporting entities and trade bodies and associations. Indonesia also engaged with academics and subject matter experts in developing the 2021 risk assessment (p. 16).

In addition, since 2015 to 2022, Indonesia have undertaken eighty-seven separate NRAs, regional risk assessments and sectoral or strategic risk assessments (SRAs) (p. 16).

Indonesia has demonstrated strong political commitment to establishing and maintaining a robust AML/CFT system, which is subject to proactive development. This commitment is underpinned by, and reflected in, the significant work undertaken for almost ten years to identify, assess and understand ML/TF risks. . . . Overall, Indonesia has a good understanding of its ML/TF risks, as reflected in NRAs and a number of sectoral and thematic risk assessments (SRAs). . . . This systematic and routine approach to updating the NRAs is commendable (p. 28).

The depth of discussions with the AT emphasised that understanding was greater than the contents of the numerous risk assessments and reports published by Indonesia. . . . The AT considers that there is a strong understanding of the effects of the COVID-19 pandemic on risk (p. 29).



## Ireland

Ireland's NRA is focused on the residual risks, with the "consequences component being regarded as constantly significant". The report identified a range of specified threats and vulnerabilities that it is facing. The results, which are based on multi-sectoral workshops and the discussions of the Anti-Money Laundering and Steering Committee (AMLSC), take into account the observed experience of competent authorities and input of the private sector including via surveys. The Private Sector Consultative Forum (PSCF), formed in March 2015, also assisted in providing private sector feedback on risks (p. 34).

The NRA exercise relies strongly on qualitative information and uses some quantitative data such as size of the sector, STR information, confiscated or seized proceeds of crime and general investigative data. The NRA exercise has sought to supplement its risk understanding through its regular participation at the FATF working groups, EUROPOL, other international fora, and through the EU risk assessment exercise (although this had yet to be completed at the time of the on-site) (p. 34).

The steering committee's sub-group on NRA will continue to meet frequently (approximately every six to eight weeks) and is intended to feed into ongoing sectoral risk assessments by competent authorities (p. 129).



## Isle of Man

The NRA process, which was a multi-stakeholder exercise, was conducted very diligently and transparently by the authorities, backed by political commitment at the highest level. Where data and information was missing, this was acknowledged in the NRA document itself. Efforts were made to minimise the impact on risk understanding resulting from information gaps. Besides the NRA, the understanding of vulnerabilities within the financial sector (including TCSPs) is supported by years of supervisory experience (p. 36).

The authorities endeavoured to conduct a candid assessment of the institutional vulnerabilities, which has resulted in the identification of important gaps in the national system. This has enabled the authorities to undertake a number of targeted measures and allocate resources where needed (p. 32).

The process appears to have been conducted very diligently. The NRA contains sound conclusions on the sectors which are considered to represent a higher risk within the specific context of the IoM [Isle of Man] (p. 18).



## Israel

Representatives from all law enforcement, intelligence community, supervisory authorities, and the private sector (e.g., financial institutions, diamond dealers, and the Israel Bar Association (IBA) were involved in the process (p. 20).

Private sector entities, including all licensed entities, participated in the NRA. As the ML/TF risks facing Israel are complex and multi-faceted, the NRA enabled Israel not only to consolidate and articulate existing knowledge, but also to develop its understanding in various areas, including fraud, real estate, and legal arrangements in particular (p. 37).

The private sector played an important role by providing a significant amount of data on identified ML and TF sectorial risks, but also the type and nature of services provided and customer, as well as on mitigation measures take (p. 21).

Notably, the assessment material considers all three elements of risk, namely threat, vulnerability, and consequence. In general, the depth of the process is at the top end of the NRA processes which have been undertaken internationally (p. 36).

In addition to these NRAs, Israel also conducted a number of sectoral and thematic assessments (e.g., gambling, alternative payment systems, MSBs and use of cash) and assessments of issues relevant to ML/TF (p. 179).



## Republic of Korea

Korea's risk understanding is informed by an ongoing risk assessment process that has resulted in three NRAs (2014, 2016 and 2018) supplemented by additional assessments in specific areas. Each NRA reflects lessons from the previous NRA, resulting in ongoing improvements to the risk assessment process and an improved assessment and understanding of Korea's risks (p. 35).

The 2018 NRA process received input from a wide range of relevant government agencies and private sector institutions, resulting in a broad and consistent risk understanding in line with the NRA (p. 35).

The NRA identified risks based on qualitative and quantitative data provided by agencies and the private sector. Preliminary findings were then tested and further refined through discussions among the agencies to identify any gaps. The methodology for the 2018 NRA was broad, employing a “CELF” approach (p. 37).

Discussions with the authorities emphasised Korea’s strong focus on understanding its emerging and evolving risks. Each NRA took a slightly different approach with Korea applying the lessons learned in the previous NRA to improve and enhance the methodology for the next one (p. 36).



## Moldova

The NRA was developed using the World Bank methodology and with the participation of all relevant stakeholders (incl. Government authorities and the private sector) and using comprehensive data and information. The NRA constitutes a solid base for the domestic understanding of identified ML/FT threats, vulnerabilities and risks (p. 32).

the NRA provides a sound picture of the main ML threats and the features of the internal and external money flows which is consistent with the risks identified by other (credible) sources (p. 35).

A number of law enforcement, supervisory and other public authorities, and private sector were involved. This inclusive approach facilitated the analysis of the different categories of data and information provided by the authorities and associations (p. 33).

To address the methodological and procedural difficulties encountered during the assessment process, the authorities included a distinct chapter on actions to improve the statistical data, and respective remedial measures have been included in the Action Plan (p. 34).



## New Zealand

New Zealand has a robust understanding of its ML/TF risks and has established a comprehensive multi-tiered risk assessment process. This includes their NRA and four sectoral risk assessments (SRAs). The NRA is comprehensive and systematic in its identification of New Zealand’s ML/TF risks and has been refined over successive updates, though there is scope for further minor improvements (p. 8).

At the second tier, the supervisors (RBNZ, FMA and DIA) produce more specific assessments of the risks faced by the sector they each supervise (SRAs). The SRAs are informed by the findings of the NRA. At the bottom tier, reporting entities are required by the AML/CFT Act to produce their own risk assessments (p. 35).

New Zealand authorities share a sound understanding of their risks, with the results of the NRA and SRAs communicated to all stakeholders in a systemic manner (p. 33).

The methodology of the NRA is sound, producing a multi-dimensional assessment of domestic and international threats, vulnerabilities and the potential impact of these on the objectives of the AML/CFT Act (p. 35).

The NRA uses quantitative and qualitative data from a range of public and non-public sources to identify and analyse the major domestic and international ML/TF risks. The NRA process uses case studies, international studies, intelligence, and information from the NZPFIU, LEAs and the supervisors and input from reporting entities to identify major domestic and international ML/TF risks (p. 35).

The FIU is also the lead for the Police's public-private partnership with reporting entities, the Financial Crime Prevention Network (FCPN), which was formally established in October 2018. The FCPN consists of the NZPFIU, five major banks in New Zealand, Customs and RBNZ (p. 42).



## Philippines

The Philippines has reasonably assessed a range of its ML/TF risks in iterations of national risk assessments (NRAs), serious and organized crime threat assessments (SOCTAs) and various stand-alone risk assessments or strategic analyses such as for NPOs, virtual currency, external threats and cross-border fraud, tactical analysis and regional assessments on TF (including foreign terrorist fighters (FTF), though some gaps remain (p. 38).

For the 2017 NRA in particular, the cumulative effect of various sectoral assessments by respective working groups, which consisted of relevant supervisors, added depth to the assessment (p. 40).

These gaps were somewhat mitigated through the assessment of qualitative information, including surveys and other literature, as well as expert interviews and national validation workshops (p. 40).

The Philippines has reasonably assessed its ML risk through various iterations of risk assessments (NRAs or other assessments) which have drawn from the data and experience of multiple stakeholders. Further, the understanding of risk has been supplemented by various topical risk assessments (p. 49).



## Russian Federation

Russian authorities have a very developed understanding of the country's ML/TF risks. Identification and assessment of ML/TF risks is done as a systemic exercise, which benefits from the high-level political commitment and the participation of all major stakeholders from both the public and the private sectors. The ML NRA uses a large amount of quantitative and qualitative data from a multiplicity of public and non-public sources. The methodology of the ML NRA is generally sound, although some improvements can be made (p. 31).

The ML risks identified seem comprehensive and reasonable. The authorities met on-site demonstrated advanced understanding of and clear views on the constituents of risk, are aware of the most relevant countrywide and sector-specific risks, including the applicable risk scenarios, methods, and tools (p. 8).

Qualitative information analysed includes independent reports from the IMF, World Bank and other international organisations, expert judgments from supervisors, LEAs and other key stakeholders, and responses to perception surveys from the private sector and self-regulatory bodies (SROs) (p. 33).



## San Marino

The results of the NRAs generally appear reasonable to ensure that the ML/TF risks are properly identified and assessed (p. 172).

There is a strong political commitment of San Marino's government for the National ML/TF Risk Assessment process and the adoption of a National AML/CFT Strategy (p. 45).

The understanding of the main ML risks and methods identified in the 2019 NRA is equal across authorities due to close involvement in the NRA exercise. In general, the 2019 NRA is of a very good quality (p. 38).



## Saudi Arabia

Saudi Arabia has a solid understanding of its ML and TF risks, based on a robust risk assessment process and a wide range of information. Saudi authorities have produced two parallel National Risk Assessments (NRAs) of ML and TF risks (p. 8).

Based on its national risk assessments, Saudi Arabia has a good understanding of its ML risks and a very good understanding of its TF risks. The NRAs benefited from wide participation by authorities, good access to information and a sophisticated analytic approach (p. 33).

The NRA used a wide range of information including statistical data and reports from all relevant agencies; academic studies of vulnerabilities; outcomes of criminal investigations; reports from international organisations, strategic analysis by the FIU, and self-assessments of vulnerabilities, with bilateral meetings and workshops used to gather and understand the information (p. 34).

The assessment used diverse quantitative and qualitative data in order to avoid confirmation bias, coding qualitative responses in order to reflect them in the analysis (p. 34).

The main sources of information used to develop the TF NRA were the results of TF investigations. . . . This exceptionally large number of cases (530 cases) gives Saudi Arabia a uniquely rich pool of information to use as the basis for a detailed evaluation of its TF risks, trends, and methods. This has been supplemented by other sources of information on vulnerabilities and methods, as well as the ML NRA (p. 35).



## Spain

Spain demonstrates a high level of understanding of its ML/TF risks which is informed by a wide variety of good quality risk assessments from several sources, although these have not been brought together in a single national risk assessment (which is not a deficiency). Spain has developed a sound AML/CFT strategy, using its understanding of the ML/TF risks to inform both its policy and operational objectives and activities (p. 9).

The detailed basis for each assessment is different, but in general they use multiple sources of information and data, apply well-developed analytic methods, and have inter-agency input to their conclusions (p. 38).

The risk assessments provided to assessors were high quality, in particular by providing specific and operationally relevant conclusions to their primary users (p. 38).

The sectoral and geographical assessments reviewed by the team are of good quality, use multiple sources of information, are prepared through inter-agency processes, identify and assess important ML/TF risks, and set out operationally-relevant conclusions (p. 139).



## United Kingdom

The UK's ML/TF risk assessments and understanding of risk is informed by a wide range of qualitative and quantitative data, including the experience of the relevant competent authorities and feedback from the private sector (p. 35).

The UK has a robust understanding of its ML/TF risks as reflected in its public NRAs and shared across UK government departments, LEAs, and regulatory agencies. Generally, financial institutions and DNFBPs appear to understand their risk as framed in the NRA and use it to inform their own risk assessments (p. 35).

UK agencies and regulators were particularly sensitive to evolving risks and new and emerging threats. The authorities acknowledged that, like all risk assessments, the 2017 NRA represents a snapshot in time which must be complemented by ongoing work to maintain an up-to-date understanding of emerging risks. For this reason, they emphasised the importance of conducting ongoing risk and threat assessments to ensure an up-to-date picture of the UK's risk profile (p. 36).

The UK's understanding of TF is similarly comprehensive and consistent (p. 36).

HMT and the Home Office are required to take appropriate steps to ensure that the risk assessment is kept up to date. Other government agencies (including the NCA) produce multiple assessments each year on areas of high risk (p. 176).

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